



sherritt gordon mines limited annual report 1973

Annual Meeting

2:30 p.m., Wednesday, April 24, 1974
Commerce Hall in Commerce Court
Toronto, Ontario

CONSOLIDATED STATEMENT OF EARNINGS

For the Six Months Ended June 30, 1973

(with comparative figures for 1972)
(thousands of dollars)

	1973		1972	
	Second Quarter	Six Months	Second Quarter	Six Months
REVENUE FROM SALES				
Cost of sales	\$ 21,921	\$ 42,575	\$ 19,419	\$ 42,370
	14,225	27,801	15,893	33,432
GROSS PROFIT FROM SALES	7,696	14,774	3,526	8,938
Research expense	371	526	(342)	(278)
Outside exploration expense	231	416	194	367
Administrative and selling expense	762	1,310	594	1,205
	1,364	2,252	446	1,294
OPERATING PROFIT	6,332	12,522	3,080	7,644
Process licensing revenue	—	124	94	165
Rentals and other non-operating revenue	122	229	55	106
Interest income	165	242	102	159
	6,619	13,117	3,331	8,074
Interest expense	137	272	217	457
EARNINGS BEFORE WRITE-OFFS AND TAXES	6,482	12,845	3,114	7,617
Depreciation, deferred development and other write-offs	1,943	3,967	2,201	4,534
EARNINGS BEFORE TAXES	4,539	8,878	913	3,083
Income and mining royalty taxes				
Current	623	1,013	43	243
Deferred	(25)	525	(100)	(600)
	598	1,538	(57)	(357)
	3,941	7,340	970	3,440
Minority interest in net earnings of subsidiaries	4	10	5	10
NET EARNINGS	\$ 3,937	\$ 7,330	\$ 965	\$ 3,430
EARNINGS PER SHARE	31¢	58¢	8¢	27¢

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

For the Six Months Ended June 30, 1973

(with comparative figures for 1972)
(thousands of dollars)

	1973		1972	
	Second Quarter	Six Months	Second Quarter	Six Months
FUNDS WERE OBTAINED FROM				
Operations for the period	\$ 3,937	\$ 7,330	\$ 965	\$ 3,430
Net earnings				
Amounts deducted in arriving at net earnings which did not involve an outlay of funds				
Depreciation, deferred development and other write-offs	1,744	3,593	1,922	3,753
Deferred income taxes	(25)	525	(100)	(600)
	5,656	11,448	2,787	6,583
Issue of Rutlan Mine Bonds	—	12,589	—	14,113
Capital research grants	—	133	255	255
Other — net	5	10	5	10
	\$ 5,661	\$ 24,180	\$ 3,047	\$ 20,961

FUNDS WERE USED FOR

Expenditures on capital and deferred assets

Lynn Lake Mine	\$ 27	\$ 123	\$ 447	\$ 507
Fox Mine	84	149	14	41
Rutlan Mine	6,397	13,846	7,291	11,194
Employee housing and other loans	420	503	223	403
Fort Saskatchewan				
Metal and chemical plants	135	186	35	326
Research and patents	17	30	58	146
Fertilizer marketing warehouses and equipment	(2)	2	10	44
	7,078	14,839	8,078	12,661
Reduction in long-term indebtedness	2,248	3,062	887	887
Dividends	1,274	2,548	1,911	3,822
Investments	327	7,118	15	15
	10,927	27,567	10,891	17,385
Increase (decrease) in working capital	(5,266)	(3,387)	(7,844)	3,576
	\$ 5,661	\$ 24,180	\$ 3,047	\$ 20,961
WORKING CAPITAL				
Balance at beginning of the period	\$ 29,254	\$ 27,375	\$ 40,388	\$ 28,968
Increase (decrease) during the period	(5,266)	(3,387)	(7,844)	3,576
Balance at end of the period	\$ 23,988	\$ 23,988	\$ 32,544	\$ 32,544



SHERITT GORDON MINES LIMITED

P.O. Box 28, Commerce Court West, Toronto, Canada

QUARTERLY REPORT
TO SHAREHOLDERS

Second Quarter, 1973

REPORT FOR THE SECOND QUARTER, 1973

Net earnings of the Company during the second quarter continued to rise over the first quarter and the overall earnings for the first half of this year were more than double the earnings in the first half of 1972. The increase in earnings was largely attributable to increased prices received for all of our products but in particular for copper.

Comparative sales and earnings (in thousands) on a consolidated basis are set forth below:

	1973		1972	
	Second Quarter	Six Months	Second Quarter	Six Months
Revenue from sales . . .	\$21,921	\$42,575	\$19,419	\$42,370
Gross profit from sales	7,696	14,774	3,526	8,938
Earnings before write-offs and taxes	6,482	12,845	3,114	7,617
Depreciation, deferred development and other write-offs . . .	1,943	3,967	2,201	4,534
Earnings before taxes	4,539	8,878	913	3,083
Income and mining royalty taxes	598	1,538	(57)	(357)
Minority interest in net earnings of subsidiaries	4	10	5	10
Net earnings	3,937	7,330	965	3,430
Earnings per share	31¢	58¢	8¢	27¢

The volume of nickel sales during the first half of 1973, although in excess of production, was about one third below the high level of nickel sales in the first half of 1972 when we sold a substantial quantity from inventory. Because of a lower grade of ore mined at the Fox Mine the volume of copper sold decreased by about 25% from the comparable 1972 period whereas zinc and cobalt sales showed modest increases. Our average sales prices for metals, other than copper, were about 15% higher in the first half of 1973 than in the first half of 1972. In the case of copper the increases in the average sales prices were approximately 30% greater. The current quotation for copper in Canada is 67¢ a pound but on the London Metal Exchange copper is being quoted at over 90¢ a pound. The world shortage of copper together with the dollar devaluation have warranted substantial increases in the copper price but the current London Metals Exchange quotation would appear to be unrealistically high.

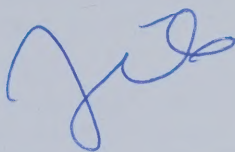
Because of a number of startup problems at the Rutan Mine, the property did not produce a profit during the first two months of operation. The operating loss for the startup period has been charged against the capital cost of the project and is not reflected in the sales and earnings figures shown above. Preliminary production for the month of July indicates that we are now operating at a profit.

Because of increased sales of nitrogen fertilizers the volume of fertilizers sold in the first half of 1973 increased by about 7% over the first half of last year. Again this year we sold all the fertilizer we could produce and, with improved prices for all products, our profit margins rose to a more acceptable level than has been prevalent for the prior depressed four-year period.

At Rutan Mine the first copper concentrate was trucked to Lynn Lake on April 21. By the end of the quarter 353,000 tons of ore had been milled, assaying 1.02% copper and 1.52% zinc. Production from the open pit fell below target during May and June. The desired inventory of broken rock was not accumulated because of a loss of some drill holes due to water and caving. The erratic operation of the mill resulted in a slow rate of feed to the crusher from the pit thus diminishing the efficiency of machines and crews. Many of the numerous problems plaguing the startup of the mill have now been overcome. Three major areas are still under repair or redesign: flooding of the tailings pit and inadequate line-staking capacity are being remedied by the installation of additional equipment; however, the problem of seized bushings continuously shutting down one of our two tertiary crushers is still unsolved and strong and serious representations are being made to the manufacturer to correct or replace this large and essential piece of equipment. Underground development headings on the main and conveyor declines progressed well until June when some difficulties arose but the declines are still ahead of target and work has commenced on the installation of the conveyor. Construction at the property was essentially complete except for certain heating and lighting systems. The on-stream analyzer in the mill and the coarse ore storage structure were not yet in service at the end of the quarter.

At Fox Mine the mill treated 232,000 tons of ore at an average grade of 1.98% copper and 1.83% zinc. Tonnage was about 9% below forecast because of mechanical problems in the crushers and a flaw in some new hoisting cables. Backfilling operations resumed during the quarter and development work was maintained slightly ahead of schedule. Some oxidized ore was cleaned out of the fine ore bin and this along with intermittent power failures and cell sanding adversely affected the copper and zinc circuits in the mill. Nevertheless, alterations have been made in the zinc circuit and zinc recoveries improved over the previous quarter. During the third quarter we will start deepening the Fox Mine from the 2,000' level to the 2,200' level by means of an access decline.

At Lynn Lake the tonnage milled during the quarter decreased to 191,000 tons assaying only .79% nickel and .36% copper. Concentrate output fell to almost 30% below forecast. Production from the cut-and-fill stopes was well below capacity partly because of the inexperience of the crews together with some difficult ground conditions. Production from the Lower D blashole stopes was adversely affected by mechanical problems. Overall costs at the property were maintained slightly below forecast and the mill was cut back to four operating days per week. Detailed studies are still under way to determine if costs can be reduced so that this mine can continue to operate.



SHERITT GORDON MINES LIMITED

P.O. Box 28, Commerce Court West, Toronto, Canada

**REPORT ON
ANNUAL MEETING OF SHAREHOLDERS
APRIL 25, 1973**

including

**QUARTERLY REPORT
FIRST QUARTER, 1973**

ANNUAL MEETING

April 25, 1973

ADDRESS OF MR. DAVID D. THOMAS, *President*

We have received a number of compliments from financial analysts about our annual report for 1972. Their favourable comments were directed to our attempts to give full and meaningful disclosure, not to the striking blue cover, not to the interesting pictures and certainly not to the 18¢ per share profit performance.

I am therefore delighted to tell you today that our net earnings for the first quarter of this year were 27¢ per share or 150% of the total net earnings for all of last year. I hope that rather startling statistic has put you in the right mood for this meeting. A little later in my remarks, I will be making some comments on some of Eric Kierans' statistics so I think in fairness I should elucidate on that 150% figure.

The net earnings before extraordinary write-offs for last year amounted to 40¢ a share so had I used that figure for 1972 I would now have said that we have only earned two thirds of last year's profits. Or again, many of you who were here at last year's annual meeting and heard us announce profits of 19¢ per share for the first quarter of 1972 could point out that you didn't expect the balance of the year to result in a loss of 1¢ per share which was the net result since the write-off of over 50% of the Lynn Lake Mine assets more than offset the profits for the balance of last year.

Nevertheless, I am still happy to say to you today that our net earnings in this first quarter of 1973 are at their highest level since the second quarter of 1970. This increase in profits is largely attributable to the sharply increasing world copper price and certainly demonstrates the cyclical nature of the mining business.

Comparative sales and earnings (in thousands) for the first quarter of 1973 and 1972 on a consolidated basis are as follows:

	1973	1972
Revenue from sales	\$ 20,654	\$ 22,951
Gross profit from sales	7,078	5,412
Earnings before write-offs and taxes	6,363	4,503
Depreciation, deferred development and other write-offs	2,024	2,333
Earnings before taxes	4,339	2,170
Income and mining royalty taxes	940	(300)
Minority interest in net earnings of subsidiaries	6	5
Net earnings	3,393	2,465
Earnings per share	27¢	19¢

Despite higher prices, revenue from sales declined as a result of lower shipments of both nickel and copper during the quarter. Nickel sales at 3,900,000 pounds were roughly half the level achieved in the first quarter of 1972 when we were working off a rather heavy inventory position. The average sales price achieved for all forms of nickel increased from \$1.31 to \$1.57, reflecting a general firming in the marketplace as well as the price increase in September, 1972. The volume of copper sales decreased by over 35% compared to the first quarter of 1972 reflecting a lower grade of ore being mined at the Fox Mine. It is our practice to value concentrates sold under contract at estimated net realizable value. On this basis, first quarter copper production has been valued at 58¢. Because of the sharp increase in world copper prices, substantial additional revenues of \$1,222,000 were realized during the first quarter of this year on the final settlement of copper produced in 1972. The volume of fertilizers shipped during the quarter increased a full 50% over the comparable period of 1972 and this together with modest increases in selling prices resulted in quarterly fertilizer revenues reaching their highest level since 1967.

Earnings for the balance of the year will depend primarily on metal selling prices (particularly copper) and our ability to bring the new Ruttan Mine up to full production. Copper prices on the London Metal Exchange have been remarkably strong during the first four months of the year, rising from 47¢ in early January to a current level of approximately 72¢. Predicting future price trends for copper is difficult in view of the many varying factors which continue to influence the world markets. We expect the fertilizer side of our business to continue to be strong during the balance of the season and once again expect to be completely sold out by the end of the spring shipping

season. I would like to again emphasize that the bulk of our fertilizer revenue accrues during the first half of each year.

At Lynn Lake 212,000 tons of ore were milled at an average grade of .91% nickel and .43% copper. Although the tonnage mined and milled was below schedule, the grade of ore, mill recoveries and operating costs were all at a satisfactory level. The tonnage was affected by a large waste peel-off that forced us to shut down two blast-hole stopes in the B orebody. There was also an accident in the Farley shaft when a skip snagged on the 2,200' loading pocket lip causing damage to the shaft timber severely restricting mine production for over four days. The cut-and-fill stope on the 3,530' level in the O orebody was brought into production but tonnage was below target because of inexperienced crews and the initial rough rock floor of the stope. Drift development picked up during the latter part of the quarter and was up to schedule although our raise development fell considerably behind schedule. Serious consideration is being given to decreasing the tonnage and the operating costs at the Lynn Mine. Despite a satisfactory first quarter, the sharp increase in wages provided for in Inco's wage settlement at Thompson, which we must follow, will place the continued operation of the Lynn Mine under severe economic pressure. We must continue to improve the efficiency of this operation to keep the mine alive.

At Fox Mine the mill treated 236,000 tons of ore assaying 1.92% copper and 2.04% zinc. Tonnage was down about 5% below forecast due to a number of mechanical problems, primarily in the mill circuit. The stopes scheduled for backfilling during the quarter still contained ore and were mined throughout most of the quarter. As a result little backfilling was done and the backfill material was stockpiled on surface. Development work was maintained fairly well up to schedule. Although mill recoveries for both copper and zinc improved slightly from the fourth quarter of 1972, the metallurgy at Fox continued to be a problem. Intensive research work is continuing to stabilize copper recoveries and to increase zinc recoveries and improve the grade of zinc concentrate.

Nickel production at the Fort Saskatchewan refinery amounted to 8,858,000 pounds including 4,902,000 pounds produced on a toll basis. This was almost 1,000,000 pounds below the record nickel production of the fourth quarter of 1972. We had some problems with wet and frozen feed materials in the first part of the quarter while more currently there has been a shortage of higher grade feed material. Cobalt production increased slightly to 212,000 pounds. In the rolling

mill we finished the conversion of a wide strip, hot rolling line which will permit increased production in succeeding quarters. Production and sales of special products were at a high level throughout the quarter. Fertilizer production was 91,000 tons with only phosphate production being below target because of sporadic shortages of sulphuric acid. At the end of the quarter the ammonia and urea plants were shut down for scheduled maintenance.

In the Philippines, construction of the Surigao Nickel Project of Marinduque Mining & Industrial Corporation on Nonoc Island is now about 25 per cent complete and engineering for the project is over 85 per cent finished.

We continued to assist P.T. Pacific Nikkel Indonesia in the engineering and feasibility studies for a commercial plant to treat nickel laterites in Indonesia. We also completed some additional pilot plant work on a process improvement. Market surveys and financial arrangements are still under active study for this project.

I have deliberately made no reference yet to our new mine at Ruttan; I am leaving what may be the most interesting part of my address to the end. Apart from Ruttan, this pretty well brings you up to date on the activities of your Company since the end of the year. There is, however, one other subject on which I must comment before I report on Ruttan Mine.

You will have read in the newspapers about the Report by Professor Eric Kierans to the Manitoba Government recommending the mining policies which he thinks they should adopt. As shareholders of Sherritt and indeed as citizens of Canada you should be concerned about the Report, perhaps less for its actual recommendations than for its biased and mistaken presentation of the mining industry. The actual recommendations are so radical that we can't believe that any responsible government in Canada would accept them.

The Report casts the mining industry as one which earns "super profits" from its mining operations. Professor Kierans recommends that:

- (1) All exploration and new mine development in Manitoba in the future be taken over by Crown corporations.
- (2) All existing resources now leased to the private sector be repatriated to the Crown within a ten-year period by means of increased taxation on current operations and ore reserves.

The second proposal appears to represent confiscation of all mines and concentrators in the Province without compensation. Professor Kierans does not propose to take over the smelters and refineries for he doesn't consider these operations very profitable. Unfortunately Sherritt now has spent over \$100,000,000 in Manitoba which is all invested in the assets which the Report proposes to repatriate to the people of Manitoba. Our refinery operation appears safe both because it is not considered very profitable and then of course it is situated away off there in the Province of Alberta.

This is neither the time nor the place for an exhaustive and detailed analysis of the Report, but I do feel that I should make some general comments on the subject.

As your Company is named in the Report as one of the big three which controlled 96-99% of the total metal mine output in Manitoba during the period 1968 to 1970, let me review here for you very briefly the history of Sherritt. It was incorporated 46 years ago in 1927 to acquire and develop a copper-zinc property in northern Manitoba. The development of this mine created the town of Sherridon and extended the railway line 40 miles further north in Manitoba. This mine operated briefly in 1931 and 1932, was forced to close for five years because of low copper prices, re-opened in 1937 and operated until September, 1951 when all the ore was exhausted.

During the period 1945 to 1950 the Company was exploring and developing at Lynn Lake the first commercial nickel-copper orebody ever discovered in Manitoba. After the closing of the Sherridon Mine a good deal of the plant together with most of the houses and buildings from the townsite were moved by winter tractor freight to the new mine and townsite at Lynn Lake. The railway was extended 150 miles north from Sherridon to Lynn Lake. The Company developed a complete hydroelectric power system at Laurie River to supply power to the Lynn Mine and townsite. This nickel-copper mine has now been operating since 1953 for a total of over 19 years.

A new copper-zinc property was discovered at Fox Lake in 1961 about 28 miles south-west of Lynn Lake. This mine was brought into production with its own concentrator in 1970. Most of the employees for the Fox Mine live at Lynn Lake and commute over the paved highway which has been built between the two properties. Concentrates produced at Fox are trucked to the railway line south of Lynn Lake and then shipped by rail to custom smelters and refineries in Canada and Japan. Power requirements for Fox Mine were in excess

of the available potential of our Laurie River system. As a result of negotiations with Manitoba Hydro a transmission line was built from Thompson to the Fox Mine and the Company turned over its Laurie River system to Manitoba Hydro for \$1 and Manitoba Hydro is now supplying all the power to the Fox and Lynn Mines as well as the Lynn Lake townsite.

In 1969 the Company discovered another copper-zinc property at Ruttan Lake, about 80 miles by road south-east of Lynn Lake.

A new townsite for the Ruttan Mine is being built by the Province of Manitoba, but at no small cost to Sherritt, at Leaf Rapids near the Churchill River 15 miles west of Ruttan Mine and 65 miles south-east of Lynn Lake. The Manitoba Government is building a provincial highway from Lynn Lake to Thompson which passes by the Leaf Rapids townsite. The Company has been responsible for building the fifteen-mile road from Ruttan Mine to Leaf Rapids. Concentrates from Ruttan will be trucked to Lynn Lake for forwarding by rail to custom smelters and refineries in Canada and Japan. Power for the Ruttan Mine and Leaf Rapids townsite is being supplied by Manitoba Hydro by means of a transmission line which was built from the Thompson-Fox Lake transmission line into the Ruttan Mine and on to the townsite.

In summary then, in the Province of Manitoba your Company, which was formed to acquire one copper-zinc property 46 years ago, has since found and developed three additional mines, has been largely responsible for the creation and development of three townsites (albeit the town of Sherridon is now pretty well deserted), has caused rail, roads and power to be brought into this area of northern Manitoba. Today, over 1,300 employees are working at Lynn Lake, Fox and Ruttan. About 3,500 people are living in Lynn Lake and the town of Leaf Rapids should soon grow to about this size.

How were the costs of these developments borne? Your Company paid for all the capital infrastructure costs of the Sherridon and Lynn Lake townsites, including both schools and roads, it has paid for all the costs of getting power into the area, it has repaid the Canadian National Railway through freight rates and subsidies for the cost of all the rail extensions (excluding one third of the initial cost of the Sherridon-Lynn Lake rail line which was paid by the Government of Canada), it has paid for two thirds of the cost of the original gravel highway between Lynn Lake and Fox Mine and all of the cost of the road between Leaf Rapids and Ruttan Mine and, in addition to the

payment of normal municipal taxes, has taken on substantial additional obligations amounting to \$4,750,000 to contribute to the development of the Leaf Rapids townsite and the construction of two Provincial highways.

Let us look at what your Company has done outside of Manitoba. When we were developing the Lynn Lake property there was no available custom smelter or refinery which could treat our nickel concentrate. As a result we developed a new hydrometallurgical refinery which could treat nickel concentrates without smelting. The refinery was built at Fort Saskatchewan, Alberta and started treating Lynn Lake nickel concentrate in 1954. Since that time the Alberta plant has been expanded in three directions: the nickel refinery has been enlarged to treat custom feed material and to recover cobalt metal; a rolling mill, mint and special products section has been added; substantial fertilizer production and distribution facilities have been added to the ammonia and ammonium sulphate plants which were part of the original nickel refinery. Today, only about one third of our nickel refinery is used to treat our own Lynn Lake concentrate; we receive other feed material from Australia, New Caledonia, the United States and other Canadian mines. About 10% of our nickel production is turned out in manufactured form, including nickel and cobalt strip, nickel blanks and coins for Canada and many other countries, and a variety of special products for the electronic industry and for the latest jet engines. We are the fourth largest fertilizer producer in Canada. Our total investment in Alberta now exceeds \$75,000,000 and we have over 900 employees in that province.

Over the years since we developed our nickel hydrometallurgical process we have carried out an extensive research and development program at Fort Saskatchewan primarily devoted to the development of hydrometallurgical processes for the recovery of nickel, cobalt, copper, zinc and sulphur. Today our processes are used under license in Finland, Australia, South Africa, and Japan and a new \$240,000,000 nickel mine and refinery is being built by Marinduque Mining & Industrial Corporation to use our nickel laterite process in the Philippines. At the end of 1972 we made our first substantial investment outside of Canada when we undertook to purchase 10% of Marinduque for \$6,800,000.

I have told you briefly what your Company has done for Manitoba, Alberta and Canada. Let us now return to the Kierans Report and his talk of "super profits". According to the Report, "super profits" are really only available from mines and concentrates, not

from smelters and refineries. We find this very hard to rationalize as we feel that production through to finished metal is an integrated process and that any mine with sufficient ore reserves would improve its return with its own smelter or refinery. Also, in our case at Lynn Lake, there was no sale for nickel concentrates; in other words, there was no place to have them treated. This applied equally to Inco's production at Thompson and I am sure was the main reason for the smelter and zinc refinery of Hudson Bay Mining at Flin Flon.

The Report classifies "super profits" as any excess over an annual return, before taxes, of 15% on invested capital, which is defined as shareholders' equity plus long-term debt. I have had my financial people analyze Sherritt's operation between the "Sherridon era — 1929-1951" when we had just a mine and a concentrator, and the "Lynn Lake era — 1952-1972" when we had our own nickel refinery. As shareholders of a mining company, you know that profits are cyclical and largely dependent on world metal prices over which we have no control. In only 2 years out of the 23 years in the "Sherridon era" were Sherritt's profits over Professor Kierans' 15% on invested capital. Over the entire 23 years the return from the Sherridon mine worked out to an average annual return of only 8.4%. The "Lynn Lake era", a period which covers 21 years from 1952 to 1972, is more complicated. I know of no precise way to divide an integrated profit between mining and refining and, accordingly, in this period must use corporate figures. We are satisfied that the non-mining operations of the Company have been at least as profitable as the mining operations so the corporate figure is certainly a fair approximation for mining only. In this period, once again, we had only 2 out of 21 years when our mining and refining returns exceeded Professor Kierans' 15%. In 1969 we had a return of 25.5% and in 1970 our return shot up to 36.8% (these just happen to be two of the three years used in the Kierans' Report to show the great profitability of the Manitoba mining industry; the other year used was 1968 when our return was 11.4%). As shareholders, you will recall that it was in 1969 when we decided, because of our decreasing supply of saleable nickel, to sell outside of Canada on a world spot pricing basis. In 1969 and in the first half of 1970 the world prices for both nickel and copper, over which we had no control, were unusually high and it was these prices which pushed our rate of return over 15%. (Had we not had a nickel refinery and the ability to sell finished metal, we could not have obtained these high nickel prices; in this instance, the high rate of return was available only because we had our own refinery.) However, the average rate of return on invested capital for the entire 21-year Lynn Lake era,

1952-1972 for the Company has averaged only 7.7%. Clearly, Sherritt has had no "super profits" over its 46-year life.

Let us take a quick look at the mining industry as a whole and compare it with other industries. I have taken the annual reports of Cominco, Falconbridge, Hudson Bay Mining, Inco, Noranda and Sherritt for the years 1969 and 1972. (1969 was picked as the key year in the Kierans' Report for the statistical analysis of the mining industry.) Based on Professor Kierans' formula, the low in 1969 — a pretty good year for metal prices — was 10.9% and the high was 26.9%, producing a weighted average return for these six mining companies of 16.4%. In 1972 — not a very good year for metal prices — the low was 2.2% and the high was 11.8%, producing a weighted average return of only 8.7%. I asked our auditors to make the same calculation based on the 1972 annual reports for representative companies of other industries and they chose the following: Dominion Bridge, Ford of Canada, Labatt's, Massey-Ferguson, Moore Corporation, Simpson-Sears and, at my suggestion, the Toronto Star. The rates of return for 1972, using the same Kierans' formula, show a low for these seven companies of 8.0% and a high of 33.2% — a weighted average return of 19.1%, much more than double the 8.7% average of the mining group. As a matter of fact, in 1972 the low three of this group of seven averaged the same as the top three in mining.

You must be a little tired of figures by now and I hope I haven't completely destroyed your faith in mining investments. As we all know, the exploration business in mining is a gamble but the rewards can be high indeed if you find a Texas Gulf or a Pine Point. However, out of all the exploration money spent in Canada, how many of these are found?

There are many errors throughout the Kierans' Report but there is one gross misstatement of fact in the Report concerning your Company which was repeated by Professor Kierans on CBC-TV. I quote from the Report: "The operators, however, are not having things all their own way. Their customers want to share in the profits and the super-returns even if the owners have not yet found the means of doing so. Thus, Sherritt Gordon splits the returns from the Fox Lake mine with a Japanese mining company and a trading firm. Similar arrangements underlie the production of zinc from the Ruttan Lake mine." On television the Professor said "Sherritt Gordon made a deal with a Japanese company to share 50% of the profits of the Fox Lake mine in the Province of Manitoba." Later he asked "How come they can afford to give away 50% to the Japanese?"

You all know that Sherritt did not give away anything to the Japanese let alone make a deal to share profits from the Fox Mine. Quite the contrary, in fact. Production from the Fox Mine was much too small to support its own smelter and refinery so a custom smelter and refinery had to be found. At the time, there was no refining and smelting capacity available in Manitoba and Sherritt investigated the available capacity in the world. As a result of this investigation, a contract was entered into with a Japanese mining company to buy our concentrate at world prices for the contained metal less a smelting and refining charge. This charge was the lowest that Sherritt could find in the world, including Canada, at that time. Under today's conditions, a smelting and refining contract anywhere in the world, again including Canada, would be substantially more costly. In addition, the Japanese loaned the Company \$17,000,000 at competitive interest rates to help finance the construction of the Fox Mine. Similar arrangements were made for the smelting and refining of zinc concentrate from the Ruttan Mine. In this instance, the Japanese loaned us \$15,000,000 to help finance the Ruttan Mine. They are taking serious losses on these loans due to the revaluation of the yen. The Japanese did not acquire any interest in Sherritt or in the Fox Mine or in the Ruttan Mine and were not "given" any share of profits but did enter into normal and competitive smelting and refining contracts.

Enough of Professor Kierans! I am now pleased to report on our new Ruttan Mine.

By the end of the first quarter the open pit waste stripping was ahead of the pre-production schedule by about 650,000 tons or 12.5%. Over 400,000 tons of ore had been drilled and about half of this had been blasted. In the underground development, both the main and conveyor declines were progressing well ahead of schedule. At the end of March, 151 families of Sherritt employees were living in Leaf Rapids. By the end of the quarter, construction of the plant was essentially complete except for cladding of the coarse ore stockpile building, and checking and installing some electrical systems, control valves, piping and conveyors. About two weeks ago, we started feeding ore through the primary crusher, thence to the secondary crusher and finally into the concentrator. Today the plant is running. The first copper concentrate was trucked to Lynn Lake last Saturday and the first rail shipment was made this morning.

We have had a number of minor and some not-so-minor startup problems, failures and misfires. However, to date, none of these has indicated any major deficiency in the plant or equipment and the initial

performance of the concentrator has been encouraging. Until now we have run on ore which contains mostly copper with very little zinc and we have operated only the copper circuit in the concentrator. By early May we expect to be starting the zinc circuit. A 10,000 ton-per-day open pit and concentrator is a big operation, by far the biggest your Company has ever undertaken. How quickly we can get the mine and plant up to capacity remains to be seen. Whether or not we are going to be able to truck all the concentrates we produce to the Lynn Lake railhead during the next eight weeks will depend on road conditions and the performance and efficiency of Midland Superior, our trucking contractor. Road conditions depend mainly on the nature of the spring break-up, including the amount of rainfall, and hopefully they will be alleviated by the construction and maintenance work now being done on the highways.

In conclusion, let me say that if the start up of Ruttan Mine goes well, if the road holds out and copper stays up at 70¢ perhaps 1973 will be the fifth year when we earn more than 15% on invested capital!

* * *

The business of the Annual Meeting included the election of the following to the Board of Directors for the ensuing year:

Peter A. Cain	Richard D. Ellett	David O. Pearce
W. E. P. DeRoche	V. N. Mackiw	David D. Thomas
Edward L. Donegan	Plato Malozemoff	J. E. Thompson

* * *

At the Directors' meeting following the Annual Meeting of Shareholders, officers were elected or appointed as follows:

W. E. P. DeRoche	— Chairman of the Board
David D. Thomas	— President and Chief Executive Officer
V. N. Mackiw	— Executive Vice-President
R. G. MacKay	— Executive Vice-President
Peter A. Cain	— Vice-President, Mining
Alan E. Gallie	— Vice-President, Marketing
Kenneth J. Harvey	— Vice-President, Finance
Bruce I. Watson	— Treasurer
W. R. Smith	— Secretary
Kenneth H. Bates	— Assistant Vice-President

CONSOLIDATED STATEMENT OF EARNINGS

For the Three Months Ended March 31, 1973

(with comparative figures for 1972)

(thousands of dollars)

	First Quarter 1973	First Quarter 1972
REVENUE FROM SALES	\$ 20,654	\$ 22,951
Cost of sales	13,576	17,539
GROSS PROFIT FROM SALES	7,078	5,412
Research expense	155	64
Outside exploration expense	185	173
Administrative and selling expense	548	611
	888	848
OPERATING PROFIT	6,190	4,564
Process licensing revenue	124	71
Rentals and other non-operating revenue	107	51
Interest income	77	57
	6,498	4,743
Interest expense	135	240
EARNINGS BEFORE WRITE-OFFS AND TAXES	6,363	4,503
Depreciation, deferred development and other write-offs	2,024	2,333
EARNINGS BEFORE TAXES	4,339	2,170
Income and mining royalty taxes		
Current	390	200
Deferred	550	(500)
	940	(300)
	3,399	2,470
Minority interest in net earnings of subsidiaries	6	5
NET EARNINGS	\$ 3,393	\$ 2,465
EARNINGS PER SHARE	27¢	19¢

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

For the Three Months Ended March 31, 1973

(with comparative figures for 1972)

(thousands of dollars)

	First Quarter 1973	First Quarter 1972
FUNDS WERE OBTAINED FROM		
Operations for the period		
Net earnings	\$ 3,393	\$ 2,465
Amounts deducted in arriving at net earnings which did not involve an outlay of funds		
Depreciation, deferred development and other write-offs	1,849	1,831
Deferred income taxes	550	(500)
	5,792	3,796
Issue of Ruttan Mine Bonds	12,589	14,113
Capital research grants	133	—
Other — net	5	5
	<u>\$ 18,519</u>	<u>\$ 17,914</u>
FUNDS WERE USED FOR		
Expenditures on capital and deferred assets		
Lynn Lake Mine	\$ 96	\$ 60
Fox Mine	65	27
Ruttan Mine	7,449	3,903
Employee housing and other loans	83	180
Fort Saskatchewan		
Metal and chemical plants	51	291
Research and patents	13	88
Fertilizer marketing warehouses and equipment	4	34
	7,761	4,583
Reduction in long-term indebtedness	814	—
Dividends	1,274	1,911
Investments	6,791	—
	16,640	6,494
Increase in working capital	1,879	11,420
	<u>\$ 18,519</u>	<u>\$ 17,914</u>
WORKING CAPITAL		
Balance at beginning of the period	\$ 27,375	\$ 28,968
Increase during the period	1,879	11,420
Balance at end of the period	<u>\$ 29,254</u>	<u>\$ 40,388</u>

SHERITT GORDON MINES LIMITED

AR22

*For release 3:00 PM April 25 1973
Alan E. Gallie*

Address by

DAVID D. THOMAS

President and Chief Executive Officer

at the

Annual Meeting of Shareholders

of

Sherritt Gordon Mines Limited

held at

Commerce Hall, Commerce Court

Toronto, Ontario, Wednesday, April 25, 1973

SHERRITT GORDON MINES LIMITED

ANNUAL MEETING

April 25, 1973

ADDRESS OF MR. DAVID D. THOMAS, President

We have received a number of compliments from financial analysts about our annual report for 1972. Their favourable comments were directed to our attempts to give full and meaningful disclosure, not to the striking blue cover, not to the interesting pictures and certainly not to the 18¢ per share profit performance.

I am therefore delighted to tell you today that our net earnings for the first quarter of this year were 27¢ per share or 150% of the total net earnings for all of last year. I hope that rather startling statistic has put you in the right mood for this meeting. A little later in my remarks, I will be making some comments on some of Eric Kierans' statistics so I think in fairness I should elucidate on that 150% figure.

The net earnings before extraordinary write-offs for last year amounted to 40¢ a share so had I used that figure for 1972 I would now have said that we have only earned two thirds of last year's profits. Or again, many of you who were here at last year's annual meeting and heard us announce profits of 19¢ per share for the first quarter could point out that you didn't expect the balance of the year to result in a loss of 1¢ per share which was the net result since the write-off of over 50% of the Lynn Lake Mine assets more than offset the profits for the balance of last year.

Nevertheless, I am still happy to say to you today that our net earnings in this first quarter of 1973 are at their highest

level since the second quarter of 1970. This increase in profits is largely attributable to the sharply increasing world copper price and certainly demonstrates the cyclical nature of the mining business.

Comparative sales and earnings (in thousands) for the first quarter of 1973 and 1972 on a consolidated basis are as follows:

	1973	1972
Revenue from sales	\$ 20,654	\$ 22,951
Gross profit from sales	7,078	5,412
Earnings before write-offs and taxes	6,363	4,503
Depreciation, deferred development and other write-offs	2,024	2,333
Earnings before taxes	4,339	2,170
Income and mining royalty taxes	940	(300)
Minority interest in net earnings of subsidiaries	6	5
Net earnings	3,393	2,465
Earnings per share	27¢	19¢

Despite higher prices, revenue from sales declined as a result of lower shipments of both nickel and copper during the quarter. Nickel sales at 3,900,000 pounds were roughly half the level achieved in the first quarter of 1972 when we were working off a rather heavy inventory position. The average sales price achieved for all forms of nickel increased from \$1.31 to \$1.57, reflecting a general firming in the marketplace as well as the price increase in September, 1972. The volume of copper sales decreased by approximately 35% compared to the first quarter of 1972 reflecting a lower grade of ore being mined at the Fox Mine. It is our practice to value concentrates sold under contract at estimated net realizeable value. On this basis, first quarter copper production has been valued at 58¢. Because of the sharp increase in world copper prices,

substantial additional revenues of \$1,222,000 were realized during the first quarter of this year on the final settlement of copper produced in 1972. The volume of fertilizers shipped during the quarter increased a full 50% over the comparable period of 1972 and this together with modest increases in selling prices resulted in quarterly fertilizer revenues reaching their highest level since 1967.

Earnings for the balance of the year will depend primarily on metal selling prices (particularly copper) and our ability to bring the new Ruttan Mine up to full production. Copper prices on the London Metal Exchange have been remarkably strong during the first four months of the year, rising from 47¢ in early January to a current level of approximately 72¢. Predicting future price trends for copper is difficult in view of the many varying factors which continue to influence the world markets. We expect the fertilizer side of our business to continue to be strong during the balance of the season and once again expect to be completely sold out by the end of the spring shipping season. I would like to emphasize that the bulk of our fertilizer revenue accrues during the first half of the year.

At Lynn Lake 212,000 tons of ore were milled at an average grade of .91% nickel and .43% copper. Although the tonnage mined and milled was below schedule, the grade of ore, mill recoveries and operating costs were all at a satisfactory level. The tonnage was affected by a large waste peel-off that forced us to shut down two blasthole stopes in the B orebody. There was also an accident

in the Farley shaft when a skip snagged on the 2,200' loading pocket lip causing damage to the shaft timber severely restricting mine production for over four days. The cut-and-fill stope on the 3,530' level in the O orebody was brought into production but tonnage was below target because of inexperienced crews and the initial rough rock floor of the stope.

Drift development picked up during the latter part of the quarter and was up to schedule although our raise development fell considerably behind schedule. Serious consideration is being given to decreasing the tonnage and the operating costs at the Lynn Mine. Despite a satisfactory first quarter, the sharp increase in wages provided for in International Nickel's wage settlement at Thompson, which we must follow, will place the continued operation of the Lynn Mine under severe economic pressure. We must continue to improve the efficiency of this operation to keep the mine alive.

At Fox Mine the mill treated 236,000 tons of ore assaying 1.92% copper and 2.04% zinc. Tonnage was down about 5% below forecast due to a number of mechanical problems, primarily in the mill circuit. The stopes scheduled for backfilling during the quarter still contained ore and were mined throughout most of the quarter. As a result little backfilling was done and the backfill material was stockpiled on surface. Development work was maintained fairly well up to schedule. Although mill recoveries for both copper and zinc improved slightly from the fourth quarter of 1972, the metallurgy at Fox continued to be a problem. Intensive research work is continuing to stabilize copper recoveries and to increase zinc recoveries and improve the grade of zinc concentrate.

Nickel production at the Fort Saskatchewan refinery amounted to 8,858,000 pounds including 4,902,000 pounds produced on a toll basis. This was almost 1,000,000 pounds below the record nickel production of the fourth quarter of 1972. We had some problems with wet and frozen feed materials in the first part of the quarter while more currently there has been a shortage of higher grade feed material. Cobalt production increased slightly to 212,000 pounds. In the rolling mill we finished the conversion of a wide strip, hot rolling line which will permit increased production in succeeding quarters. Production and sales of special products were at a high level throughout the quarter. Fertilizer production was 91,000 tons with only phosphate production being below target because of sporadic shortages of sulphuric acid. At the end of the quarter the ammonia and urea plants were shut down for scheduled maintenance.

In the Philippines, construction of the Surigao Nickel Project of Marinduque Mining & Industrial Corporation on Nonoc Island is now about 25 per cent complete and engineering for the project is

over 85 per cent finished. - *how far away capacity plant 17-19 month*
750 million lbs. product a year

We continued to assist P.T. Pacific Nikkel Indonesia in the - *past stage was about one body - capital cost*
engineering and feasibility studies for a commercial plant to treat *high \$20-million \$550-million*
nickel laterites in Indonesia. We also completed some additional *(14-million)*
pilot plant work on a process improvement. Market surveys and

financial arrangements are still under active study for this project.

not anticipated yet. decision until from
should be next few months (Chen)

I have deliberately made no reference yet to our new mine at Ruttan; I am leaving what may be the most interesting part of my address to the end. Apart from Ruttan, this pretty well brings you up to date on the activities of your Company since the end of the year. There is, however, one other subject on which I must comment before I report on Ruttan Mine.

You will have read in the newspapers about the Report by Professor Eric Kierans to the Manitoba Government recommending the mining policies which he thinks they should adopt. As shareholders of Sherritt and indeed as citizens of Canada you should be concerned about the Report, perhaps less for its actual recommendations than for its biased and mistaken presentation of the mining industry. The actual recommendations are so radical that we can't believe that any responsible government in Canada would accept them.

The Report casts the mining industry as one which earns "super profits" from its mining operations. Professor Kierans recommends that:

- 1) All exploration and new mine development in Manitoba in the future be taken over by Crown corporations.
- 2) All existing resources now leased to the private sector be repatriated to the Crown within a ten-year period by means of increased taxation on current operations and ore reserves.

The second proposal appears to represent confiscation of all mines and concentrators in the Province without compensation. Professor Kierans does not propose to take over the smelters and refineries for he doesn't consider these operations very profitable. Unfortunately Sherritt now has spent over \$100,000,000 in Manitoba which is all invested in the assets which the report proposes to repatriate to the people of Manitoba. Our refinery operation appears safe both because it is not considered very profitable and then of course it is situated away off there in the Province of Alberta.

This is neither the time nor the place for an exhaustive and detailed analysis of the Report, but I do feel that I should make some general comments on the subject.

As your Company is named in the Report as one of the big three which controlled 96-99% of the total metal mine output in Manitoba during the period 1968 to 1970, let me review here for you very briefly the history of Sherritt. It was incorporated 46 years ago in 1927 to acquire and develop a copper-zinc property in northern Manitoba. The development of this mine created the town of Sherridon and extended the railway line 40 miles further north in Manitoba. This mine operated briefly in 1931 and 1932, was forced to close for five years because of low copper prices, re-opened in 1937 and

operated until September, 1951 when all the ore was exhausted.

During the period 1945 to 1950 the Company was exploring and developing at Lynn Lake the first commercial nickel-copper orebody ever discovered in Manitoba. After the closing of the Sherridon Mine a good deal of the plant and houses and buildings from the townsite were moved by winter tractor freight to the new mine and townsite at Lynn Lake. The railway was extended 150 miles north from Sherridon to Lynn Lake. The Company developed a complete hydroelectric power system at Laurie River to supply power to the Lynn Mine and townsite. This nickel-copper mine has now been operating for the past 19 years.

A new copper-zinc property was discovered at Fox Lake in 1961 about 28 miles south-west of Lynn Lake. This mine was brought into production with its own concentrator in 1970. Most of the employees for the Fox Mine live at Lynn Lake and commute over the paved highway which was built between the two properties. Concentrates produced at Fox are trucked to the railway line south of Lynn Lake and then shipped by rail to custom smelters and refineries in Canada and Japan. Power requirements for Fox Mine were in excess of the available potential of our Laurie River system. As a result of negotiations with Manitoba Hydro a transmission line was built from Thompson to the Fox Mine and the Company turned over its Laurie River system to Manitoba Hydro for \$1 and Manitoba Hydro is now supplying all the power to the Fox and Lynn Mines as well as the Lynn Lake townsite.

In 1969 the Company discovered another copper-zinc property at Ruttan Lake, about 80 miles by road south-east of Lynn Lake.

A new townsite for the Ruttan Mine is being built by the Province of Manitoba, but at no small cost to Sherritt, at Leaf Rapids near the Churchill River 15 miles west of Ruttan Mine and 65 miles south-east of Lynn Lake. The Manitoba Government is building a provincial highway from Lynn Lake to Thompson which passes by the Leaf Rapids townsite. The Company has been responsible for building the fifteen-mile road from Ruttan Mine to Leaf Rapids. Concentrates from Ruttan will be trucked to Lynn Lake for forwarding by rail to custom smelters and refineries in Canada and Japan. Power for the Ruttan Mine and Leaf Rapids townsite is being supplied by Manitoba Hydro by means of a transmission line which was built from the Thompson-Fox Lake transmission line into the Ruttan Mine and on to the townsite.

In summary then, in the Province of Manitoba your Company, which was formed to acquire one copper-zinc property 46 years ago, has since found and developed three additional mines, has been largely responsible for the creation and development of three townsites (albeit the town of Sherridon is now pretty well deserted), has caused rail, roads and power to be brought into this area of northern Manitoba. Today, over 1,300 employees are working at Lynn Lake, Fox and Ruttan. About 3,500 people are living in Lynn Lake and the town of Leaf Rapids should soon grow to about this size.

Now, how were the costs of these developments borne? Your Company paid for all the capital infrastructure costs of the Sherridon and Lynn Lake townsites, including

both schools and roads, it has paid for all the costs of getting power into the area, it has repaid the Canadian National Railway through freight rates and subsidies for the cost of all the rail extensions (excluding one third of the initial cost of the Sherridon-Lynn Lake rail line which was paid by the Government of Canada), it has paid for two thirds of the cost of the original gravel highway between Lynn Lake and Fox Mine and all of the cost of the road between Leaf Rapids and Ruttan Mine and, in addition to the payment of normal municipal taxes, has taken on substantial additional obligations amounting to \$4,750,000 to cover the development of the Leaf Rapids townsite and the construction of two Provincial highways.

Let us look at what the Company has done outside of Manitoba. When we were developing the Lynn Lake property there was no available custom smelter or refinery which could treat our nickel concentrate. As a result we developed a new hydrometallurgical refinery which could treat nickel concentrates without smelting. The refinery was built at Fort Saskatchewan, Alberta and started treating Lynn Lake nickel concentrate in 1954. Since that time the Alberta plant has been expanded in three directions: the nickel refinery has been enlarged to treat custom feed material and to recover cobalt metal; a rolling mill, mint and special products section has been added; substantial fertilizer production and distribution facilities have been added to the ammonia and ammonium sulphate plants which were part of the original nickel refinery. Today, only about one third of our nickel refinery is used to treat our own Lynn Lake concentrate; we receive other feed material from Australia, New Caledonia, the United

States and other Canadian mines. About 10% of our nickel production is turned out in manufactured form. We are the fourth largest fertilizer producer in Canada. Our total investment in Alberta now exceeds \$75,000,000 and we have over 900 employees in that province.

Over the years since we developed our nickel hydrometallurgical process we have carried out an extensive research and development program at Fort Saskatchewan primarily devoted to the development of hydrometallurgical processes for the recovery of nickel, cobalt, copper, zinc and sulphur. Today our processes are used under license in Finland, Australia, South Africa, and Japan and a new \$240,000,000 nickel mine and refinery is being built by Marinduque Mining & Industrial Corporation to use our nickel laterite process in the Philippines. At the end of 1972 we made our first substantial investment outside of Canada when we undertook to purchase 10% of Marinduque for \$6,800,000.

I have told you briefly what your Company has done for Manitoba, Alberta and Canada. Let us now return to the Kierans Report and his talk of "super profits". According to the Report, "super profits" are really only available from mines and concentrators, not from smelters and refineries. We find this very hard to rationalize as we feel that production through to finished metal is an integrated process and that any mine with sufficient ore reserves would improve its return with its own smelter or refinery. Also, in our case at Lynn Lake, there was no sale for nickel concentrate; this applied equally to INCO's production at Thompson and I am sure was the main reason for the smelter and zinc refinery of Hudson Bay Mining at Flin Flon.

The Report defines "super profits" as any excess over an annual return, before taxes, of 15% on invested capital, namely shareholders' equity plus long-term debt. I have had my financial people analyze Sherritt's operation between the "Sherridon era - 1929-1951" when we had just a mine and a concentrator, and the "Lynn Lake era - 1952-1972" when we had our own nickel refinery. As shareholders of a mining company, you know that profits are cyclical and largely dependent on world metal prices over which we have no control. In only two years out of the 23 years in the "Sherridon era" were Sherritt's profits over Professor Kierans' 15% on invested capital. Over the entire 23 years the return from the Sherridon mine worked out to an average annual return of only 8.4%. The "Lynn Lake era", a period which covers 21 years from 1952 to 1972, is more complicated. I know of no precise way to divide an integrated profit between mining and refining and, accordingly, in this period must use corporate figures. We are satisfied that the non-mining operations of the Company have been at least as profitable as the mining operations so the corporate figure is certainly a fair approximation for mining only. In this period, once again, we have two years where our mining and refining returns exceeded Professor Kierans' 15%. In 1969 we had a return of 25.5% and in 1970 our return shot up to 36.8% (these just happen to be two of the three years used in the Kierans' Report to show the great profitability of the Manitoba mining industry; the other year used was 1968 when our return was 11.4%). As shareholders, you will recall that it was in 1969 when we decided, because of our decreasing supply of saleable nickel, to sell outside

of Canada on a world spot pricing basis. In 1969 and in the first half of 1970 the world prices for both nickel and copper, over which we had no control, were unusually high and it was these prices which pushed our rate of return over 15%. (Had we not had a nickel refinery and the ability to sell finished metal, we could not have obtained these high nickel prices; in this instance, the high rate of return was available only because we had our own refinery.) However, the average rate of return on invested capital for the 21-year "Lynn Lake era" 1952-1972 for the entire Company has averaged only 7.7%. Clearly, Sherritt has had no "super profits" over its 46-year life.

Let us take a quick look at the mining industry as a whole and compare it with other industries. I have taken the annual reports of Cominco, Falconbridge, Hudson Bay Mining, INCO, Noranda and Sherritt for the years 1969 and 1972. (1969 was picked as the key year in the Kierans' Report for the statistical analysis of the mining industry.) Based on Professor Kierans' formula, the low in 1969 -- a pretty good year for metal prices -- was 10.9% and the high was 26.9%, producing a weighted average return for these six mining companies of 16.4%. In 1972 -- not a very good year for metal prices -- the low was 2.2% and the high was 11.8%, producing a weighted average return of only 8.7%. I asked our auditors to make the same calculation based on the 1972 annual reports for representative companies of other industries and they chose the following: Dominion Bridge, Ford of Canada, Labatt's, Massey-Ferguson, Moore Corporation, Simpson-Sears and, at my suggestion, the Toronto Star.

The rates of return for 1972, using the Kierans' formula, show a low for these seven companies of 8.0% and a high of 33.2% -- a weighted average return of 19.1%. (In 1972 the low three of this group of seven averaged the same as the top three in the mining group.)

You must be a little tired of figures by now and I hope I haven't completely destroyed your faith in mining investments. As you all know, the exploration business in mining is a gamble but the rewards can be high indeed if you find a Texas Gulf or a Pine Point.

There are many errors throughout the Kierans' Report but there is one gross misstatement of fact in the Report concerning your Company which was repeated by Professor Kierans on CBC-TV. I quote from the Report: "The operators, however, are not having things all their own way. Their customers want to share in the profits and the super-returns even if the owners have not yet found the means of doing so. Thus, Sherritt Gordon splits the returns from the Fox Lake mine with a Japanese mining company and a trading firm. Similar arrangements underlie the production of zinc from the Ruttan Lake mine." On television the Professor said "Sherritt Gordon made a deal with a Japanese company to share 50% of the profits of the Fox Lake mine in the Province of Manitoba." Later he asked "How come can they afford to give away 50% to the Japanese?"

You all know that Sherritt did not give away anything to the Japanese let alone make a deal to share profits from the Fox Mine. Quite the contrary, in fact. Production from the Fox Mine was much too small to support its own smelter and refinery so a custom smelter and refinery had to be found. At the time, there was no refining and smelting capacity available in Manitoba and Sherritt investigated the available capacity in the world. As a result of this investigation, a contract was entered into with a Japanese mining company to buy our concentrate at world prices for the contained metal less a smelting and refining charge. This charge was the lowest that Sherritt could find in the world, including Canada, at that time. Under today's conditions, a smelting and refining contract anywhere in the world, again including Canada, would be substantially more costly. In addition, the Japanese loaned the Company \$17,000,000 at competitive interest rates to help finance the construction of the Fox Mine. Similar arrangements were made for the smelting and refining of zinc concentrate from the Ruttan Mine. In this instance, the Japanese loaned us \$15,000,000 to help finance the Ruttan Mine. They are taking serious losses on these loans due to the revaluation of the yen. The Japanese did not acquire any interest in Sherritt or in the Fox Mine or in the Ruttan Mine and were not "given" any share of profits but did enter into normal and competitive smelting and refining contracts.

Enough of Professor Kierans! I am now pleased to report on our new Rutten Mine.

By the end of the first quarter the open pit waste stripping was ahead of the pre-production schedule by about 650,000 tons or 12.5%.

Over 400,000 tons of ore had been drilled and about half of this had been blasted. In the underground development, both the main and conveyor declines were progressing well ahead of schedule.

At the end of March, 151 families of Sherritt employees were living in Leaf Rapids. By the end of the quarter, construction of the plant was essentially complete except for cladding of the coarse ore stockpile building, and checking and installing some electrical systems, control valves, piping and conveyors. About two weeks ago, we started feeding ore through the primary crusher, thence to the secondary crusher and finally into the concentrator. Today the plant is running.

The first copper concentrate was trucked to Lynn Lake last Saturday and the first rail shipment was made this morning.

We have had a number of minor and some not-so-minor startup problems, failures and misfires. However, to date, none of these has indicated any major deficiency in the plant or equipment and the initial performance of the concentrator has been encouraging. Until now we have run on ore which contains mostly copper with very little zinc and we have operated only the copper circuit in the concentrator. By the end of April or early May we expect to be starting the zinc circuit. A 10,000 ton-per-day open pit and concentrator is a big operation, by far the biggest your Company has ever undertaken. How quickly we can get the mine and plant up to capacity remains to be seen. Whether or not we are going to be able to truck all the concentrates we produce to the Lynn Lake railhead during the next eight weeks will depend on road conditions and the performance and efficiency of Midland Superior, our trucking

contractor. Road conditions depend mainly on the nature of the spring break-up, including the amount of rainfall, and hopefully they will be alleviated by the construction and maintenance work now being done on the highways.

In conclusion, let me say that if the startup of Ruttan Mine goes well, if the road holds out and copper stays up at 70¢ perhaps 1973 will be the fifth year when we earn more than 15%!

oOo

SHERRITT GORDON MINES LIMITED and subsidiary companies
CONSOLIDATED STATEMENT OF EARNINGS
For the Three Months Ended March 31, 1973.
(with comparative figures for 1972)
(thousands of dollars)

	First Quarter <u>1973</u>	First Quarter <u>1972</u>
Revenue from sales.....	\$20,654	\$22,951
Cost of sales.....	<u>13,576</u>	<u>17,539</u>
Gross profit from sales.....	<u>7,078</u>	<u>5,412</u>
Research expense.....	155	64
Outside exploration expense.....	185	173
Administrative and selling expense.....	<u>548</u>	<u>611</u>
	<u>888</u>	<u>848</u>
Operating profit.....	6,190	4,564
Process licensing revenue.....	124	71
Rentals and other non-operating revenue.....	107	51
Interest income.....	<u>77</u>	<u>57</u>
	6,498	4,743
Interest expense.....	<u>135</u>	<u>240</u>
Earnings before write-offs and taxes.....	6,363	4,503
Depreciation, deferred development and other write-offs.....	<u>2,024</u>	<u>2,333</u>
Earnings before taxes.....	<u>4,339</u>	<u>2,170</u>
Income and mining royalty taxes.....		
Current.....	390	200
Deferred.....	<u>550</u>	<u>(500)</u>
	<u>940</u>	<u>(300)</u>
	3,399	2,470
Minority interest in net earnings of subsidiaries...	<u>6</u>	<u>5</u>
Net earnings.....	<u>\$ 3,393</u>	<u>\$ 2,465</u>
Earnings per share	27¢	19¢

SHERRITT GORDON MINES LIMITED and subsidiary companies
CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS
For the Three Months Ended March 31, 1973.
(with comparative figures for 1972)
(thousands of dollars)

	First Quarter <u>1973</u>	First Quarter <u>1972</u>
Funds were obtained from		
Operations for the period		
Net earnings.....	\$ 3,393	\$ 2,465
Amounts deducted in arriving at net earnings which did not involve an outlay of funds		
Depreciation, deferred development and other write-offs.....	1,849	1,831
Deferred income taxes.....	<u>550</u>	<u>(500)</u>
	5,792	3,796
Issue of Ruttan Mine Bonds.....	12,589	14,113
Capital research grants.....	133	-
Other - net.....	<u>5</u>	<u>5</u>
	<u>\$18,519</u>	<u>\$17,914</u>
Funds were used for		
Expenditures on capital and deferred assets		
Lynn Lake Mine.....	\$ 96	\$ 60
Fox Mine.....	65	27
Ruttan Mine.....	7,449	3,903
Employee housing and other loans.....	83	180
Fort Saskatchewan		
Metal and chemical plants.....	51	291
Research and patents.....	13	88
Fertilizer marketing warehouses and equipment.....	<u>4</u>	<u>34</u>
	7,761	4,583
Reduction in long-term indebtedness.....	814	-
Dividends.....	1,274	1,911
Investments.....	<u>6,791</u>	<u>-</u>
	16,640	6,494
Increase in working capital.....	<u>1,879</u>	<u>11,420</u>
	<u>\$18,519</u>	<u>\$17,914</u>
Working capital		
Balance at beginning of the period.....	\$27,375	\$28,968
Increase during the period.....	<u>1,879</u>	<u>11,420</u>
Balance at end of the period.....	<u>\$29,254</u>	<u>\$40,388</u>

Sheritt Gordon Mines Limited 1973 Annual Report



The new surface plant at Ruttan Mine. Copper and zinc concentrates are shipped by truck from the storage silos to the railway at Lynn Lake.

1973 at a glance

	1973	1972
Copper sales — pounds	66,430,000	41,684,000
Zinc sales — pounds	47,251,000	8,986,000
Nickel sales — pounds	17,499,000	20,414,000
Fertilizer sales — tons	396,000	353,000
Revenue from sales	\$124,092,000	\$72,861,000
Net earnings before extraordinary items	\$ 20,986,000	\$ 5,091,000
— per share	\$1.65	\$.40
Net earnings for the year	\$ 20,986,000	\$ 2,307,000
— per share	\$1.65	\$.18
Dividends per share	\$.70	\$.50



Directors

Peter A. Cain
W. E. P. DeRoche

Edward L. Donegan
Richard D. Ellett
V. N. Mackiw
Plato Malozemoff
David O. Pearce
David D. Thomas
J. E. Thompson

Vice-President, Mining
Chairman of the Board
Partner, Blake, Cassels & Graydon
Partner, Blake, Cassels & Graydon
Vice-President, Exploration, Newmont Mining Corporation
Executive Vice-President
President and Chairman of the Board, Newmont Mining Corporation
Vice-President, Operations, Newmont Mining Corporation
President and Chief Executive Officer
Executive Vice-President, Newmont Mining Corporation

Officers

W. E. P. DeRoche
David D. Thomas
V. N. Mackiw
R. G. MacKay
Peter A. Cain
Alan E. Gallie
Kenneth J. Harvey
Bruce I. Watson
W. R. Smith
D. J. I. Evans

Chairman of the Board
President and Chief Executive Officer
Executive Vice-President
Executive Vice-President
Vice-President, Mining
Vice-President, Marketing
Vice-President, Finance
Treasurer
Secretary
Assistant Vice-President

Auditors

Deloitte, Haskins & Sells, Toronto

Solicitors

Blake, Cassels & Graydon, Toronto

Transfer Agents

Canada Permanent Trust Company, Canada
Morgan Guaranty Trust Company of New York

Bankers

Canadian Imperial Bank of Commerce, Toronto
Morgan Guaranty Trust Company of New York

Highlights of 1973

Sales amounted to \$124,092,000 and net earnings were \$20,986,000 or \$1.65 per share, both figures establishing record highs for your Company. The increase in sales and earnings resulted from the new production of the Ruttan Mine and higher sales prices for all products, especially copper and zinc.

At Ruttan Mine, construction of the surface plant and the development of the open pit were completed on time at a cost of about 9% over our financing budget. The first concentrate was shipped on April 21st and the official production period started on July 1st. The mill and open pit operated at over 85% of rated capacity during the last half of the year but we fell behind in the removal of waste rock in the pit.

Operations were steady at Fox Mine and zinc production increased because of a higher grade of zinc. Zinc metallurgy continued to be a problem. We started sinking a decline from the 2,000' level to the 2,200' level.

Production from Lynn Lake continued to decrease and the mine again operated at a cash loss for the

year. The production rate of the mine was decreased to 1,500 tons per day in the last quarter and the crew was reduced. The life of this mine remains uncertain.

Nickel production at the Fort Saskatchewan refinery decreased to 30,200,000 pounds because of a shortage of refinery feed.

The unprecedented increase in the price of nearly all crops improved the demand for fertilizer at home and abroad. Increased sales volume and prices made 1973 the best fertilizer year experienced by your Company to date.

In a joint program with Cominco, Sherritt has started construction of a pilot plant for the S-C Copper Process, a new, pollution-free, hydrometallurgical process designed to recover copper, elemental sulphur and other metals from sulphide concentrates.

In the Philippines good progress was made by Marinduque Mining & Industrial Corporation on the construction of the Surigao nickel mine and refinery on Nonoc Island.

The Fort Saskatchewan nickel refinery is surrounded by its ammonia, urea and sulphate fertilizer plants, agrodomes and phosphate fertilizer facilities.



Report of the Directors



To the Shareholders, Sheritt Gordon Mines Limited.

Your Directors are pleased to submit this report on the operations of your Company during 1973, including the audited financial statements.

The year generally was a successful one for Sheritt. The new Ruttan Mine started up in late April and operated at close to capacity during the last half of the year. Sales prices of all our products increased, especially copper and zinc. As a result of these increases in both production and prices, our revenue from sales and net earnings established new highs. On the other hand, our nickel operations deteriorated. The nickel refinery operated at well below capacity and the mine at Lynn Lake continued to lose money.

Sales

(figures in thousands)

	1973	1972
Copper*	66,430 lbs. \$ 53,065	41,684 lbs. \$20,838
Zinc*	47,251 lbs. 13,733	8,986 lbs. 1,675
Nickel	17,499 lbs. 28,079	20,414 lbs. 28,001
Cobalt	569 lbs. 1,798	713 lbs. 1,803
Other metal revenue	8,857	7,046
Metal Revenue . .	105,532	59,363
Fertilizers . . .	396 tons 18,560	353 tons 13,498
Total Revenue . .	\$124,092	\$72,861

*Sales of Ruttan Mine production of copper and zinc during the pre-production period, which ended June 30, 1973, have been applied against the capital cost of the project and are not included above.

With Ruttan Mine in production during the last half of the year, the volume of copper sales in 1973 increased to 66,000,000 pounds or more than 50% above 1972. The price of copper on the London Metal Exchange showed an unprecedented rise during 1973, from 47¢ per pound early in January to 91¢ at the end of December, averaging just under 81¢ for the year. A substantial increase in the consumption of copper, severe production problems of a number of major producers, the Canadian rail strike, inflationary costs and speculative trading, all contributed to pushing copper to record high prices. The Canadian price for copper, which started at 50.5¢ per pound at the beginning of the year, was raised by steps to 74¢ in early October. The domestic price for copper has been well below the L.M.E. price since the end of February, 1973. Our overall average sales price for copper was 80¢ per pound during 1973 compared with 50¢ in 1972.

During the early part of the year we diverted some of our Fox Mine copper concentrate to the Flin Flon smelter of Hudson Bay Mining and Smelting

Co., Limited. Noranda Mines Limited, who have contracted to buy our Ruttan Mine copper concentrate production, shipped most of it to Flin Flon. This has meant that a large part of our copper concentrate production during 1973 was treated in Manitoba.

Our zinc sales increased to 47,000,000 pounds in 1973 compared with 9,000,000 pounds in 1972. The higher volume came from the new production at Ruttan Mine as well as increased Fox Mine production resulting from a higher grade of zinc in the ore milled. The European producer price for zinc, which is the basis used for our sales of Ruttan zinc in Japan, was raised by steps from £173 per metric ton (18.3¢ per pound) at the beginning of the year to £300 (31.5¢) at year end. The Canadian producer price followed the lead of the European price and was raised from 19.5¢ per pound at the beginning of the year to 31¢ at the end of the year. As in the case of copper, the price of zinc rose as a result of increased consumption, disruptions in production and inflationary costs. Our average sales price for zinc was 29¢ per pound in 1973 compared with 19¢ in 1972.

Our Fox zinc concentrate was sold to Hudson Bay Mining and Smelting Co., Limited and treated at Flin Flon. About half of our Ruttan zinc concentrate was diverted, with the concurrence of Mitsubishi Metal Corporation, from Japan to Flin Flon and to a zinc plant in the United States.

During the year we were again subjected to heavy pressure for increases in the treatment charges under our long-term concentrate sales contracts to cover increased costs of environmental control and to help alleviate heavy and unexpected inflationary costs. We have agreed to amend the contract with Noranda to provide an additional fixed charge for the treatment of Ruttan copper concentrate. We have also agreed to amend the contracts with Mitsubishi covering Fox copper concentrate and Ruttan zinc concentrate to provide for additional charges which escalate with changing metal prices.

The consumption of nickel throughout the free world increased substantially in 1973. Preliminary estimates indicate that nickel sales approximated at least 1,100,000,000 pounds, an increase of about 18% above 1972. By far the greatest increase was in the United States where the 1973 figure was almost 25% over 1972. This increased

consumption resulted in some reduction in producers' inventories.

During 1973 the producer price of pure nickel remained at \$1.53 U.S. per pound. Changes were made in the pricing of "Class II" or "charge" forms of nickel, narrowing their difference in price from pure nickel. The free market price of pure nickel was relatively steady at about \$1.47 U.S. per pound.

Although the drastic increase in oil prices and the oil embargo had little effect on either the consumption or production of nickel in 1973, the energy crisis has made the outlook for 1974 cloudy. The new high prices for oil represent a serious increase in the cost of producing nickel from laterites. Early in 1974 The International Nickel Company of Canada, Limited increased its price of pure nickel by 6% to \$1.62 U.S. per pound. This 9¢ increase is far below the increased cost of oil for production of nickel from laterites and it would appear that some of the older laterite production facilities may now be uneconomic. The energy crisis will almost certainly limit the consumption of nickel in consumer durable goods but on the other hand increased capital spending will probably increase nickel consumption in this field. It is impossible to estimate the net result on overall consumption.

Sheritt's coinage business reached a new record level in 1973; we shipped over 1,900,000 pounds of pure nickel strip and over 180,000,000 pure nickel blanks for coining in the national mints of Canada, The Netherlands and France. The Sheritt Mint struck coins for four different countries. In addition to coins, The Sheritt Mint produced more medals, medallions and monetary tokens than in any previous year. We were honoured to be chosen by Kitchener and Calgary to mint special Royal Visit medals for presentation to Her Majesty the Queen and the Duke of Edinburgh. This year there was a notable increase in the medals ordered in silver and gold.

Our average price for all forms of nickel sold during 1973 was \$1.60 per pound compared with \$1.37 in 1972.

The demand for cobalt in 1973 was very strong and world consumption was probably at a record level. We had no difficulty in selling all our production and, as agents for Outokumpu Oy of Finland, we sold all the cobalt they allocated to



David D. Thomas, President and Chief Executive Officer.

North America. As a matter of fact, our high purity cobalt commands a premium price and we have been unable to meet the demands for it. We increased the price of our cobalt from \$2.70 U.S. per pound to \$3.50 U.S. during 1973.

Our volume of fertilizer sales during 1973 was at a record level of 396,000 tons. Sales prices increased for all fertilizer products and profits from our fertilizer operation finally surpassed the previous high levels established in 1967. The unprecedented increase in the price of nearly all crops significantly affected the demand for fertilizer at home and around the world and forced us to allocate our production among our various customers. More production facilities are required to meet the fertilizer demand. In view of this situation Sheritt is already constructing a 20,000-ton ammonia storage tank at a cost of \$2,000,000 to meet the seasonal requirements for anhydrous ammonia fertilizer for Western Canadian farmers. Natural gas is the only raw material needed to manufacture basic nitrogen fertilizers and, as a result, Alberta has the opportunity of becoming a major supplier of nitrogen fertilizers primarily to North America and to some extent throughout the world. We are making a detailed engineering and feasibility study for expanding ammonia production at Fort Saskatchewan to 1,500 tons per day and urea capacity to 1,200 tons per day. The target date for the new plants to come on stream would be early in 1977 at a cost presently estimated at about \$70,000,000.



Production

(figures in thousands)

	1973	1972
Recoverable Copper in:		
Ruttan Mine concentrates lbs.	33,482	—
Fox Mine concentrates lbs.	32,310	33,857
Lynn Lake copper concentrate . . lbs.	2,609	4,631
Refinery copper sulphides from:		
Lynn Lake nickel concentrate . lbs.	1,289	1,226
Purchased feed lbs.	2,411	1,760
Total Copper	72,101	41,474
Recoverable Zinc in:		
Ruttan Mine concentrate lbs.	34,261	—
Fox Mine concentrate lbs.	14,119	8,986
Total Zinc	48,380	8,986
Refined Nickel from:		
Lynn Lake concentrate lbs.	7,619	8,481
Purchased feed lbs.	8,399	7,661
Toll refined feed lbs.	14,244	21,179
Total Nickel	30,262	37,321
Refined Cobalt from:		
Lynn Lake concentrate lbs.	119	117
Purchased feed lbs.	497	692
Total Cobalt	616	809
Fertilizers tons	362	372
Production of fabricated metal products and special metal powders included in the figures shown above:		
Nickel products lbs.	3,819	3,234
Cobalt products lbs.	71	52

Earnings and Dividends

(figures in thousands)

	1973	1972
Revenue from sales	\$124,092	\$72,861
Gross profit from sales	39,177	15,062
Earnings before write-offs and taxes	32,934	12,746
Depreciation, deferred development and other write-offs	9,234	7,563
Earnings before taxes and extraordinary items	23,700	5,183
Income and mining royalty taxes	2,685	55
Minority interest in net earnings of subsidiaries	29	37
Net earnings before extraordinary items	20,986	5,091
Write-off of portion of Lynn Lake plant and development costs, after tax	—	3,425
Capital receipt in connection with a long-term contract	—	(641)
Net earnings for the year	\$ 20,986	\$ 2,307
Earnings per share		
Before extraordinary items	\$1.65	\$0.40
For the year	\$1.65	\$0.18
Dividends per share	\$0.70	\$0.50

Revenue from sales and the related gross profit increased dramatically over 1972 reflecting production from the Ruttan Mine during the last half of the year and higher prices realized for all our products.

Earnings from our copper-zinc operations showed a substantial increase as a result of the new production from the Ruttan Mine, the increased zinc production at Fox Mine, and strong world prices for copper and zinc.

Despite higher prices, earnings from our nickel operations declined as a result of lower production at Lynn Lake and a lower throughput of toll nickel at the refinery.

Demand for our fertilizer products continued at a high level throughout 1973 and this, together with a strengthening in prices, resulted in continued improvement in earnings from these operations.

Depreciation and deferred development write-offs increased as the Ruttan Mine became operational during the last half of 1973.

Under the three-year income tax exemption for income from new mines, which ended on December 31, 1973, Fox Mine income was exempt for the first three quarters of the year and Ruttan Mine income was wholly exempt. The increase in taxes over 1972 results from a substantially higher Manitoba mining royalty tax as well as income tax on Fox Mine during the last quarter.

Net earnings for the year achieved a record of \$1.65 per share. The quarterly dividend was increased from 10¢ to 15¢ per share for the last two quarters and an extra dividend of 20¢ per share was paid in the fourth quarter. This brought the total dividend payment for the year to a record level of 70¢ per share.

Ruttan Mine Operations

	1973	1973
	Preproduction	Production
Ore milled tons	353,000	1,518,000
. % copper	1.02	1.17
. % zinc	1.53	2.13
Copper in concentrate . . . lbs.	4,990,000	31,082,000
Zinc in concentrate . . . lbs.	1,595,000	41,518,000
Cash production cost per ton milled	—	\$7.57

Construction at Ruttan Mine was completed and the property came into production in 1973. The

final capital cost of the surface plant, open pit development, exploration and preliminary underground development, including interest during construction, employee mortgage loans and operating supplies (but excluding other working capital) amounted to approximately \$61,000,000. Our original financing budget of \$56,000,000 (excluding a \$4,000,000 provision for other working capital items) was overrun by about \$5,000,000 or 9%.

As might be expected in the startup of a large operation, certain deficiencies in equipment and planning came to light. Some of these have been

corrected ; others are in the process of study or modification.

The first copper concentrate from the Ruttan Mine was shipped to the railhead at Lynn Lake on April 21, 1973. Zinc concentrate was first produced early in the month of June. The mine's official production period commenced on July 1, 1973.

During the development and preproduction period the removal of waste rock from the open pit was on schedule although drilling problems were encountered during the spring run-off in May and June. After production started, 85% of rated capacity for ore removal was achieved but



The open pit at Ruttan Mine where 50,000 tons of ore and waste rock must be removed every day.

waste stripping was only 56% of requirements. The main problems have been equipment breakdowns of trucks and shovels coupled with slow delivery of some replacement parts.

Truck availability has averaged only about 55% since the start of production. With the arrival of the cold weather in mid November the shovel availability also was poor. Some redesign of this equipment is required if the shovels are to operate efficiently during the severe winter weather. To counteract these difficulties in the pit we have made changes in organization and have hired

consultants to improve the efficiency in the operating and maintenance areas. We have ordered three additional 85-ton trucks and an additional 10-yard shovel. We may also bring in an outside contractor to remove some of the waste rock to put the pit in good operating condition.

The operation of the mill since the start of production has been quite satisfactory. An early problem was that one of the tertiary crushers did not perform properly until August because of two manufacturing faults in the unit. Larger tailings pumps had to be installed to correct flooding of the

tailings pit and new equipment was required to increase lime-slaking capacity. The overall mill recoveries during the production period were about 88% for copper and 65% for zinc. Additional copper flotation cells are to be installed during the first half of 1974 to improve copper recoveries. We also plan to make some further improvements in the zinc circuit.

At year end the main decline in the underground development had reached the 1,000' level where it will change direction to go down the next 500 feet. The conveyor decline had also reached the intersection point for the next conveyor. Drifting was started on the 1,000' level and about one quarter of the conveyor structure had been installed. Overall, despite shortages of crew and poor availability of equipment from time to time during the last half of the year, the total advance by the contractor was 97% of the target figure.

A severe shortage of skilled mechanics and other tradesmen at the Rutan Mine continued to be one of our most serious operating problems.

In the town of Leaf Rapids, housing completions continued to run behind schedule throughout 1973 but before the middle of 1974 there should be adequate accommodation for all married personnel. The high cost of houses in the town is of serious concern to both the Company and our employees. As a result, the funds for mortgage loans and low-cost housing investment authorized by the Company were doubled from

the figure provided under our original financing budget.

During the first year of operation the ore milled was lower in copper and higher in zinc than forecast. Early in 1974 the zone first intersected by surface diamond drilling will be mined so that a better correlation between forecast and actual ore grades will become possible. The ore reserve figure for 1973 has been adjusted by the tonnage mined and for the lower-than-expected copper grade in the upper benches. The figures given below do not include any allowance for dilution.

Ore Reserve	Tons	% Copper	% Zinc
December 31, 1972	51,000,000	1.47	1.61
December 31, 1973	49,100,000	1.46	1.60

Fox Mine Operations

	1973	1972
Ore milled tons	963,000	946,000
. % copper	2.01	2.14
. % zinc	2.07	1.40
Copper in concentrate . . lbs.	34,631,000	36,256,000
Zinc in concentrate . . . lbs.	16,703,000	10,898,000
Cash production cost per ton milled	\$9.65	\$8.08

Production of copper in concentrate during 1973 decreased by about 5% while zinc production increased by over 50% compared with concentrates produced during 1972. These changes in production reflect the variations in the grade of ore milled as the total tonnage together with mill recoveries remained virtually unchanged from 1972. There was no recurrence of the problem

Three of these 10-cubic-yard electric shovels and twelve 85-ton trucks are used in the Rutan open pit.





The ball mills at Fox Mine grind 3,000 tons of copper-zinc ore per day.

we had in 1972 with pillar recoveries, and back-filling of the unstable area was completed. A number of employees from the Lynn Lake operation were transferred to Fox Mine and by the last quarter of the year we took over much of the development work which had been performed by our contractor. Work commenced on deepening the mine from the 2,000' to the 2,200' level by means of an access decline. Much research work was done on the zinc circuit in the mill and although the grade of zinc concentrate was raised to a satisfactory level the recovery of zinc in concentrate showed little improvement. The zinc metallurgy at Fox Mine continues to be a stubborn problem.

Once again more detailed underground diamond drilling reduced the ore reserves. Some of the sections on the west fringe at the end of the main ore zone proved to be very spotty and not suitable for mining. As a result the reserve this year has been reduced by about 500,000 tons in addition to the ore mined. There were no new ore sections added to the reserve during the year. The figures shown below do not include any allowance for dilution.

Ore Reserve	Tons	% Copper	% Zinc
December 31, 1972	13,300,000	2.01	2.23
December 31, 1973	11,800,000	2.03	2.15

Lynn Lake Operations

	1973	1972
Ore milled tons	676,000	995,000
. % nickel	.84	.67
. % copper	.39	.38
Nickel in concentrate . . lbs.	8,539,000	10,355,000
Copper in concentrate . . lbs.	4,276,000	6,342,000
Cash production cost per ton milled	\$16.37	\$12.32

The mine produced at a satisfactory rate only during the first quarter of the year. In the second and third quarters both grade and tonnage were below forecast. This was caused by excess dilution from some of the open blasthole stopes and a shortage of experienced miners which seriously retarded production from the cut-and-fill stopes. Production in the third quarter was reduced also because the 3,000' - 3,700' orepass began collapsing at the 3,530' level. This condition is continuing to require extensive repairs to keep the orepass serviceable. In the fourth quarter the production quota for the mine was lowered to 1,500 tons per day with a target grade of 1% nickel. At the same time we reduced the Lynn Lake crew by transferring employees to Fox and Ruttan Mines and by turning over most of the mine development and cut-and-fill mining to our contractors, Massé & Gauthier Drilling Inc. Unfortunately actual production in the final quarter of the year reached only about 75% of the anticipated figure. Although the mine operated at

SHERITT



a profit in the first half, the losses suffered in the last six months resulted in a small overall cash loss for the year. Production from the mine has shown an improvement since the beginning of 1974 but nevertheless the life of the mine remains uncertain.

Outside Exploration

Outside exploration activity continued throughout the year at a level slightly above that of 1972. Our airborne geophysical equipment was overhauled and improved early in the year with resulting increased operating effectiveness. Most of our airborne and ground geophysics and follow-up diamond drilling were done in North-western Ontario. We believe we have developed a highly efficient exploration organization even though there were no discoveries of commercial value in 1973. The cost of outside exploration was \$798,000.

Fort Saskatchewan Operations

Production of refined nickel during 1973 decreased to 30,262,000 pounds which is well below the record level of 37,321,000 pounds established in 1972. Supplies of concentrate from Lynn Lake continued to decline and nickel concentrate and matte shipments from Western Mining Corporation in Australia fell far short of the forecast quantity. Late in the year we secured a temporary short-term supply of nickel matte feed which should last through to the end of 1974. We do not expect the refinery to operate at capacity until early in 1975 when nickel matte produced from concentrate from the Windarra property of Poseidon Limited in Western Australia becomes available. By-product copper sulphide production increased over 1972 because of a much higher copper content in some of the refinery feed material. On the other hand, cobalt production decreased by about 25% below 1972 due to the reduced cobalt content in the refinery feed.

(1) Nitrogen and hydrogen are separated from the air and natural gas for combination in (2) to form ammonia. (3) This 2,000-ton Hortonsphere is used to store ammonia. (4) Ammonia combined with carbon dioxide makes urea fertilizer, which is produced in this plant – 350 tons per day.





One hundred years of the R.C.M.P. with attractive visitors at The Sherritt Mint to see the first production of the 1973 "Klondike Days" dollars.

Because of the continued growth in our sales of special metal products, including special powders, dispersion-strengthened materials, nickel and cobalt strip, blanks and coins, most of these production facilities operated at capacity. Orders have been received already which indicate that 1974 production will strain our present productive capacity. A new cold mill and related equipment will be installed by the middle of 1974 to complement the existing equipment and to expand our established product line to include strip of greater width and thinner gauge. We are also installing a semi-commercial metal atomizing unit to produce a number of new alloy powders for the rolling mill.

Fertilizer production was maintained at a high level comparable to that of 1972 and reflected the continuing strong demand for all grades of fertilizers. Less ammonium sulphate was produced because of the decreased feed to the nickel refinery and, as a result, more ammonia was available for sale. Phosphate production was fractionally lower than in 1972 because of limitations in the supply of phosphate rock and sulphuric acid. Our new sulphuric acid plant, which is scheduled for completion in the third quarter of 1974, will improve the supply of acid to the phosphate plant. An ammonia storage facility for 20,000 tons is now under construction and should be ready for use by the end of 1974.



Research and Development

Research expense returned to a more normal level in 1973 compared with 1972 when our major research activity was a pilot plant run on nickel laterite ore for which we were reimbursed. Total research expense for 1973 amounted to \$1,055,000.

Sherritt and Cominco, under a joint program, successfully completed the laboratory investigations of the S-C Copper Process. This pollution-free, hydrometallurgical process is designed to recover copper, elemental sulphur and other metals, including precious metals, from copper sulphide concentrates. A decision was made in October to proceed with the piloting of the process at a cost of approximately \$10,000,000. The Federal Government, under the Program for the Advancement of Industrial Technology (PAIT), is supporting this pilot program. The pilot plant is now under construction at Fort Saskatchewan and is expected to be in operation early in 1975. Initially, copper concentrates from Fox and Ruttan Mines will be tested.

Research in support of the current rolling mill expansion included the preparation of atomized alloy powders to broaden our strip product line. This work is being supported by another PAIT grant. The semi-commercial atomizing facility is under construction and is expected to be ready for pilot runs in May, 1974. Other product research included new coinage alloys, one of which has been developed as far as the piloting stage, and new composite powders for thermal spraying. Development of dispersion-strengthened nickel was extended into processes for the production of barstock and higher alloy sheets. Nickel sheets and nickel-chromium powder, both dispersion-strengthened, are now being produced as standard products.

Research on various metallurgical processes continued and agronomy research was actively pursued in collaboration with provincial government programs in Western Canada.

Capital Expenditures

Capital expenditures in 1973 decreased to \$20,791,000, about one third below the 1972 expenditures. Details of the expenditures are set forth in the Statement of Source and Use of Funds in the financial section of this report. The decrease was attributable to the completion of the surface plant construction at Ruttan Mine. If we proceed

with our proposed ammonia-urea expansion, capital expenditures could increase in 1974.

Personnel

At the year end, the Company had 2,341 employees compared with 2,110 at the end of 1972. Distribution was as follows:

	1973	1972
Lynn Lake, Fox and Ruttan Mines . . .	1,306	1,152
Fort Saskatchewan and Edmonton . . .	994	913
Toronto	41	45

In the Mining Division, the total number of employees increased to meet the manpower requirements of Ruttan Mine. A three-year contract with Local 5757, United Steelworkers of America, was signed in April. The contract covers the period from June 1, 1973 to May 31, 1976, and provides for three wage increases totalling \$1.11 per hour plus improved fringe benefits.

Despite the fact that our wage level and fringe benefit packages rank among the best in Canada, the inability to attract skilled workers is one of the most critical problems of our Mining Division. In the fourth quarter we embarked upon a program to recruit women for operating positions and tradesmen apprenticeships. The initial response to this program is encouraging.

The total number of employees increased at Fort Saskatchewan because of additional project activity and the reduced work week. By the end of the year nine of our employees and their families had moved to the Philippines to assist in the preparation for the startup of Marinduque Mining & Industrial Corporation's nickel refinery. A two-year contract expiring April 30, 1975 was negotiated with Local 530, International Chemical Workers' Union. The contract provides for wage increases totalling 88¢ per hour in addition to a shortening of the standard work week to 37½ hours. There were no changes in the fringe benefit programs.

Overseas Interests

Good progress was made during 1973 by Marinduque Mining & Industrial Corporation on the construction of the Surigao nickel mine and refinery on Nonoc Island in the Philippines. By the end of the year over 65% of the project construction had been completed and virtually all the machinery and equipment was on site. The



Marinduque's huge nickel laterite refinery under construction on Nonoc Island in the Philippines. First nickel production from this 75-million-pound plant is expected to start in the third quarter of 1974.

Photo: CALTEX

current world shortage of construction materials is troublesome but Marinduque is expecting to start the nickel refinery in the third quarter of 1974. Like the rest of the nickel produced from oxide ores, there will be a substantial increase in the cost of producing a pound of nickel from the Surigao Nickel Project as a result of the unprecedented rise in the price of oil. The recent 6% increase in the price of nickel falls far short of compensating for this increased cost of energy.

The nickel project of P. T. Pacific Nikkel Indonesia is confronted with the sharply increased price of oil and the rapidly rising costs of equipment and construction materials, a situation now common to all new capital projects throughout the world. The future of this project, and particularly

Sheritt's participation as an 11% shareholder, is now under critical review.

Our ability to remain competitive in the increasingly complex mining industry depends in large measure upon the skills and efforts of our employees; to them go the sincere thanks of the Directors for their contribution during the past year.

On behalf of the Board,

David W. Thomas

President.

Toronto, Ontario, March 1, 1974.

Consolidated Balance Sheet

December 31, 1973 (with comparative figures for 1972)



Assets	1973	1972
Current		
Cash, including interest-bearing deposits	\$ 91,000	\$ 7,954,000
Accounts receivable		
Trade	42,739,000	14,384,000
Income taxes	—	1,626,000
Other	1,310,000	1,094,000
Inventories (note 3)	17,545,000	18,116,000
Insurance and other prepaid items	104,000	288,000
	<u>61,789,000</u>	<u>43,462,000</u>
Fixed (note 4)		
Property, plant and equipment	151,948,000	137,960,000
Less accumulated depreciation	70,559,000	63,941,000
	<u>81,389,000</u>	<u>74,019,000</u>
Unamortized development costs	25,431,000	22,966,000
	<u>106,820,000</u>	<u>96,985,000</u>
Other		
Employee housing and other loans	3,998,000	2,084,000
Investments at cost less amounts written off (note 7)	8,277,000	304,000
Patents at cost less amounts written off	529,000	558,000
	<u>12,804,000</u>	<u>2,946,000</u>
	<u><u>\$181,413,000</u></u>	<u><u>\$143,393,000</u></u>

The accompanying notes are an integral part of the financial statements.

Liabilities		1973	1972
Current			
Bank indebtedness (note 5)	\$ 12,525,000	\$ 4,300,000	
Accounts payable and accrued	19,472,000	11,253,000	
Income and mining royalty taxes	522,000	—	
First Mortgage Bonds (note 6)	4,491,000	534,000	
	<u>37,010,000</u>	<u>16,087,000</u>	
First Mortgage Bonds (note 6)	41,881,000	36,333,000	
Deferred Income Taxes (note 8)	12,695,000	13,220,000	
Minority Interest	29,000	23,000	
Shareholders' Equity			
Capital			
Capital stock			
Authorized			
14,000,000 shares par value \$1 per share			
Issued and fully paid			
12,740,000 shares	12,740,000	12,740,000	
Contributed surplus			
Net premium on sale of shares	25,641,000	25,641,000	
	<u>38,381,000</u>	<u>38,381,000</u>	
Retained Earnings	51,417,000	39,349,000	
	<u>89,798,000</u>	<u>77,730,000</u>	
Approved by the Board:			
W. E. P. DeRoche, Director			
David D. Thomas, Director			
	<u>\$181,413,000</u>	<u>\$143,393,000</u>	



Consolidated Statement of Earnings

for the year ended December 31, 1973 (with comparative figures for 1972)

	1973	1972
Revenue from sales	\$124,092,000	\$ 72,861,000
Cost of sales	34,915,000	57,799,000
Gross profit from sales	39,177,000	15,062,000
Research expense	1,055,000	19,000
Outside exploration expense	798,000	673,000
Administrative and selling expense	2,752,000	2,166,000
	4,605,000	2,858,000
Operating profit	34,572,000	12,204,000
Process licensing revenue	124,000	421,000
Rentals and other non-operating revenue	522,000	542,000
Interest income	324,000	439,000
	35,542,000	13,606,000
Interest expense	2,608,000	860,000
Earnings before write-offs and taxes	32,934,000	12,746,000
Depreciation, deferred development and other write-offs	9,234,000	7,563,000
Earnings before taxes and extraordinary items	23,700,000	5,183,000
Income and mining royalty taxes (note 8)		
Current	3,210,000	355,000
Deferred	(525,000)	(300,000)
	2,685,000	55,000
	21,015,000	5,128,000
Minority interest in net earnings of subsidiaries	29,000	37,000
Net earnings before extraordinary items	20,986,000	5,091,000
Write-off of portion of Lynn Lake plant and development costs, after tax		3,425,000
Capital receipt in connection with a long-term contract		(641,000)
		2,784,000
Net earnings for the year	\$ 20,986,000	\$ 2,307,000
Earnings per share		
Before extraordinary items	\$1.65	\$.40
For the year	\$1.65	\$.18

Consolidated Statement of Retained Earnings

for the year ended December 31, 1973 (with comparative figures for 1972)

	1973	1972
Balance at beginning of the year	\$ 39,349,000	\$ 43,412,000
Net earnings for the year	20,986,000	2,307,000
	60,335,000	45,719,000
Dividends paid — 70¢ per share (1972 — 50¢)	8,918,000	6,370,000
Balance at end of the year	\$ 51,417,000	\$ 39,349,000

The accompanying notes are an integral part of the financial statements.

Consolidated Statement of Source and Use of Funds

for the year ended December 31, 1973 (with comparative figures for 1972)

	1973	1972
Funds were obtained from		
Operations for the year		
Net earnings	\$ 20,986,000	\$ 2,307,000
Amounts deducted in arriving at net earnings which did not involve an outlay of funds		
Depreciation, deferred development and other write-offs . .	8,922,000	12,813,000
Deferred income taxes	(525,000)	(2,550,000)
	<u>29,383,000</u>	<u>12,570,000</u>
Issue of Ruttan Mine Bonds	12,589,000	26,636,000
Capital research grants	149,000	256,000
Other—net	6,000	17,000
	<u>42,127,000</u>	<u>39,479,000</u>
Decrease in working capital	2,596,000	1,593,000
	<u>\$ 44,723,000</u>	<u>\$ 41,072,000</u>
Funds were used for		
Expenditures on capital and deferred assets		
Lynn Lake Mine	\$ 323,000	\$ 940,000
Fox Mine	482,000	553,000
Ruttan Mine	15,400,000	27,287,000
Employee housing and other loans	1,913,000	1,020,000
Fort Saskatchewan		
Metal and chemical plants	2,544,000	892,000
Research and patents	127,000	206,000
Fertilizer marketing warehouses and equipment	2,000	65,000
	<u>20,791,000</u>	<u>30,963,000</u>
Reduction in long-term indebtedness	7,041,000	3,499,000
Dividends	8,918,000	6,370,000
Investments	7,973,000	240,000
	<u>\$ 44,723,000</u>	<u>\$ 41,072,000</u>
Working capital		
Balance at beginning of the year	\$ 27,375,000	\$ 28,968,000
Decrease during the year	2,596,000	1,593,000
Balance at end of the year	<u>\$ 24,779,000</u>	<u>\$ 27,375,000</u>

The accompanying notes are an integral part of the financial statements.



Notes to Consolidated Financial Statements

1. Principles of Consolidation

The consolidated financial statements include the accounts of Sherritt Gordon Mines Limited and its active subsidiary companies, Sherritt Fertilizers, Inc., Sherritt Gordon Airtransport Limited and Michipicoten Iron Mines Limited.

2. Translation of Foreign Currencies

Transactions in foreign currencies have been translated into Canadian dollars at rates prevailing at the time of such transactions, except that current assets and current liabilities have been translated at the approximate rate of exchange at December 31, 1973.

3. Inventories

	1973	1972
Finished products	\$ 7,213,000	\$10,944,000
Raw material and material in process	4,752,000	3,346,000
Operating supplies	5,580,000	3,826,000
	<u>\$17,545,000</u>	<u>\$18,116,000</u>

Concentrates sold under contract are valued at estimated net realizable value. Other finished products, raw material, material in process and operating supplies are valued at the lower of average cost and net realizable value.

4. Fixed Assets

	Property, Plant and Equipment			Unamortized	
	Cost	Accumulated Depreciation	Undepreciated Cost	Development Costs	Total
Lynn Lake	\$ 21,634,000	\$18,644,000	\$ 2,990,000	\$ 1,155,000	\$ 4,145,000
Fox Mine	16,325,000	2,801,000	13,524,000	7,070,000	20,594,000
Ruttan Mine	37,553,000	976,000	36,577,000	17,094,000	53,671,000
Metal and Chemical	76,436,000	48,138,000	28,298,000	112,000	28,410,000
	<u>\$151,948,000</u>	<u>\$70,559,000</u>	<u>\$81,389,000</u>	<u>\$25,431,000</u>	<u>\$106,820,000</u>

PROPERTY, PLANT AND EQUIPMENT. Depreciation of property, plant and equipment is provided over the estimated useful life of the assets as follows:

Lynn Lake assets; using the unit of production method based on metallic content of the ore. Commencing

January 1, 1973, because of the uncertain life of the mine all additions are written off as incurred.

Fox Mine and Ruttan Mine assets; using the unit of production method based on metallic content of the ore. Fox Mine assets had previously been depreciated using an estimated service life of 20 years. This change in the method of calculating depreciation has had no significant effect on the earnings of the Company.

Metal and Chemical assets; using an estimated service life of 20 years.

UNAMORTIZED DEVELOPMENT COSTS. Development costs related to a new ore occurrence are deferred until production commences, after which only development costs of a capital nature are deferred, except at Lynn Lake where these costs are written off as incurred. Deferred development costs are written off over the estimated useful life of the mine using the unit of production method based on metallic content of the ore.

5. Bank Indebtedness

Certain inventories of the Company have been pledged as security for the bank indebtedness.

6. First Mortgage Bonds

	December 31, 1973	
CURRENT	U.S.	Canadian
7½% Fox Mine Bonds	\$ 1,082,000	\$ 1,077,000
Ruttan Mine Series A Bonds	2,700,000	2,689,000
Ruttan Mine Series B Bonds	729,000	725,000
		<u>4,491,000</u>
LONG TERM		
7½% Fox Mine Bonds — due 1975	3,276,000	3,499,000
Ruttan Mine Series A Bonds — due 1975 to 1983 Canadian	—	22,950,000
U.S.	1,350,000	1,348,000
Series B Bonds — due 1975 to 1981	14,150,000	14,084,000
		<u>41,881,000</u>
TOTAL FIRST MORTGAGE BONDS OUTSTANDING		<u>\$46,372,000</u>

7½% FOX MINE LOAN AGREEMENT

Repayment — from Fox Mine copper concentrate production but, otherwise, repayable at a minimum of \$3,276,000 U.S. per year during the first five years of Fox Mine production.

RUTTAN MINE LOAN AGREEMENTS

Series A Bonds

Interest — variable in relation to the bank prime borrowing rate.

Repayment — in forty equal quarterly instalments commencing on January 1, 1974.

Series B Bonds

Interest – 8%.

Repayment – from Ruttan Mine zinc concentrate production but, otherwise, at a minimum rate of \$2,143,000 U.S. per year during the first seven years of Ruttan Mine production.

Under the indentures securing the Bonds the Company may not make a dividend distribution which would reduce working capital below \$9,000,000.

7. Investments at Cost Less Amounts Written Off

	Shares of Common Stock	Percentage Owned	1973	1972
Marinduque Mining & Industrial Corporation	6,025,522	11	\$6,801,000	\$ —
P.T. Pacific Nikkel Indonesia (including loans and advances)	2,778	11	1,323,000	249,000
Other companies			153,000	55,000
			<u>\$8,277,000</u>	<u>\$304,000</u>

During 1973 the Company purchased 642,723 shares of Marinduque Mining & Industrial Corporation for \$6,800,000 U.S. which shares have been converted into 6,025,522 shares as a result of stock dividends and stock splits which were effected during the year. An amount of \$1,700,000 U.S. included in the accounts payable and accrued is owing on the subscription for these shares and is due for payment in March 1974. The quoted market value of the investment in Marinduque shares at December 31, 1973 was \$21,089,000 U.S. Under the subscription agreement with Marinduque the Company has agreed not to sell nor transfer any of the shares prior to December 31, 1976. There is no quoted market value for shares of P.T. Pacific Nikkel Indonesia.

8. Income and Mining Royalty Taxes

Fox Mine income and Ruttan Mine income were exempt from income taxes until September 30, 1973 and December 31, 1973 respectively. Accordingly the provision for income and mining royalty taxes reflects these exemptions.

The Company follows the tax allocation method of providing for income taxes and continues to reduce taxable income by claiming capital cost allowances and development expenditures in excess of the depreciation and development costs written off against income each year. The difference between the taxes calculated as payable each year and those charged against income on the tax allocation method is accumulated and carried forward in the balance sheet under the heading of Deferred Income Taxes.

9. Commitments and Guarantees

P.T. PACIFIC NIKKEL INDONESIA. The Company has guaranteed its pro rata portion of the bank indebtedness of P.T. Pacific Nikkel Indonesia, a company in which Sherritt holds an 11% interest. P.T. Pacific Nikkel is in the preliminary phase of developing a nickel laterite project in Indonesia. This guarantee amounts to approximately \$1,450,000 U.S. In addition the Company is committed to make further shareholder advances of \$428,000 U.S.

RUTTAN MINE. The Ruttan Mine reached commercial production on July 1, 1973 from the open pit. Development of the underground mine during the following seven years is estimated to require at least an additional \$20,000,000. Open pit equipment valued at \$7,900,000 is being leased.

PROVINCE OF MANITOBA. Commencing in 1974, in addition to the payment of normal municipal taxes the Company has agreed to accept assessments of municipal taxes over a period, not to exceed 20 years, sufficient to amortize certain special expenditures by the Province for the development of Leaf Rapids townsite and for certain expenditures incurred on Provincial Highways 391 and 396. These expenditures will amount to about \$5,350,000. The Company has also agreed that its normal municipal taxes, together with the municipal taxes of others in the townsite will, in any event, amortize over 20 years at least \$3,500,000 of other capital expenditures in the townsite.

GUARANTEES. The Company has guaranteed employee mortgage indebtedness in Lynn Lake and Leaf Rapids townsites amounting to approximately \$4,000,000.

10. Remuneration of Directors and Officers

In 1973 the direct remuneration of directors and senior officers of the Company was \$432,000 (1972 – \$384,000).

Auditors' Report

To the Shareholders of Sherritt Gordon Mines Limited:

We have examined the consolidated balance sheet of Sherritt Gordon Mines Limited and its subsidiary companies as at December 31, 1973 and the consolidated statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

DELOITTE, HASKINS & SELLS,
Chartered Accountants.

Toronto, Ontario, February 22, 1974.

Sherritt Gordon Mines Limited



Ten-Year Record 1964 — 1973 (figures in thousands)

	1973	1972	1971	1970	1969
Operating Information					
Ore milled — tons					
Ruttan Mine	1,871	—	—	—	—
Fox Mine	963	946	1,022	389	—
Lynn Lake	676	995	1,158	1,090	1,258
Production					
Refinery — Nickel — pounds	30,262	37,321	33,111	35,918	30,028
— Cobalt — pounds	616	809	561	803	668
— Fertilizer — tons	362	372	327	280	281
Recoverable metal in concentrates					
— Copper — pounds	72,101	41,474	60,534	30,816	13,238
— Zinc — pounds	48,380	8,986	9,605	163	—
Financial Information					
Revenue from sales	\$124,092	72,861	73,958	90,889	66,292
Process licensing and other	\$ 941	1,365	1,464	1,420	932
Costs and expenses	\$ 92,128	61,517	60,798	55,760	41,765
Depreciation and amortization	\$ 9,234	7,563	7,852	6,048	6,032
Income and mining royalty taxes	\$ 2,685	55	(1,995)	13,000	8,500
Net earnings before extraordinary items	\$ 20,986	5,091	8,767	17,501	10,927
— per share	\$ 1.65	.40	.73	1.54	.96
Extraordinary items	\$ —	2,784	1,270	1,658	—
Net earnings for the year	\$ 20,986	2,307	7,497	15,843	10,927
— per share	\$ 1.65	.18	.62	1.39	.96
Dividends	\$ 8,918	6,370	7,231	6,818	4,545
— per share	\$.70	.50	.60	.60	.40
Capital expenditures	\$ 20,791	30,963	11,737	12,795	14,715
Cash flow from operations	\$ 29,383	12,570	16,006	25,235	19,813
Working capital	\$ 24,779	27,375	28,968	19,365	15,387
Long-term debt	\$ 41,881	36,333	13,196	17,788	20,039
Shareholders' equity	\$ 89,798	77,730	81,793	65,048	56,023
Return on shareholders' equity	23.4%	3.0%	9.2%	24.4%	19.5%
Ore Reserves					
Ruttan Mine — tons	49,100	51,000	51,000	51,000	12,900
— % copper	1.46	1.47	1.47	1.47	1.44
— % zinc	1.60	1.61	1.61	1.61	2.61
Fox Mine — tons	11,800	13,300	14,500	13,100	11,300
— % copper	2.03	2.01	1.99	1.84	1.96
— % zinc	2.15	2.23	2.35	2.70	2.74
Lynn Lake — tons	*	*	10,000	12,600	12,600
— % nickel	*	*	0.83	0.77	0.77
— % copper	*	*	0.39	0.38	0.40

Ruttan Mine and Fox Mine ore reserves contain no allowance for dilution.

Lynn Lake ore reserve contains an allowance for dilution for the years 1965 to 1971. *(No reserve published subsequent to 1971.)

1968	1967	1966	1965	1964
—	—	—	—	—
—	—	—	—	—
1,277	1,071	1,205	1,364	1,363
29,598	25,080	29,522	25,790	28,208
894	764	791	530	594
345	331	303	214	178
12,336	10,716	11,384	12,392	13,035
—	—	—	—	—
56,754	49,375	44,307	39,311	35,361
400	294	55	(100)	(99)
43,699	38,893	36,122	29,397	26,343
5,807	5,374	4,360	4,332	3,895
3,500	2,410	1,320	2,135	1,922
4,148	2,992	2,560	3,347	3,102
.37	.26	.23	.29	.27
—	—	—	—	—
4,148	2,992	2,560	3,347	3,102
.37	.26	.23	.29	.27
2,841	2,273	2,273	2,270	2,267
.25	.20	.20	.20	.20
9,831	3,006	6,419	17,581	4,088
12,012	11,350	8,652	9,707	9,177
12,352	10,468	10,257	11,928	13,372
17,556	15,173	21,232	22,394	13,579
49,641	48,334	47,615	47,274	46,117
8.4%	6.2%	5.4%	7.1%	6.7%
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
12,269	12,269	12,269	12,269	12,100
1.74	1.74	1.74	1.74	1.72
2.35	2.35	2.35	2.35	2.28
12,600	11,900	11,400	12,600	11,012
0.81	0.83	0.84	0.84	0.98
0.43	0.46	0.47	0.49	0.59

Mining and Milling Division

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Vice-President, Mining

J. E. Korski

Manager, Ruttan Operations

R. C. McCombe

Manager, Lynn-Fox Operations

J. A. MacLellan

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G. D. Ruttan

Manager, Geology and Exploration

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H. M. Bilkey

General Manager, Alberta Operations

J. R. Muter

Associate Manager

B. W. Kushnir

Manager, Production Groups

A. H. Lee

Manager, Special Product Groups

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